# TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1987

# HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

## COMMITTEE ON APPROPRIATIONS

## HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

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**PART 2**

**UNITED STATES POSTAL SERVICE**

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# TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1987

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WEDNESDAY, FEBRUARY 26, 1986.

## UNITED STATES POSTAL SERVICE

### WITNESSES

ALBERT V. CASEY, POSTMASTER GENERAL
LOUIS A. COX, GENERAL COUNSEL
WILLIAM R. CUMMINGS, SENIOR ASSISTANT POSTMASTER GENERAL, FINANCE GROUP

Mr. ROYBAL. The committee will come to order.

The committee is in session this morning to hear from the U.S. Postal Service with regard to their 1987 budgetary request.

Mr. Casey, I would like to welcome you to the committee.

Mr. CASEY. Thank you.

Mr. ROYBAL. I understand this is your first appearance. This is a very friendly committee. We think the Postal Service is one of the great organizations in the country, and we look forward to working with you and to hear your testimony this morning.

Mr. CASEY. Thank you.

Mr. ROYBAL. Will you please proceed in any manner that you may desire.

Mr. CASEY. I have a very brief opening statement.

### APPROPRIATION REQUEST

Mr. Chairman, for Fiscal Year 1987, the President has recommended an appropriation to the Postal Service of $40,049,000. This is a reduction of $707,951,000 from the amount appropriated by the continuing resolution for Fiscal Year 1986.

### PUBLIC SERVICE APPROPRIATIONS

The Postal Service has not received a public service appropriation since Fiscal Year 1982 and again this year is not requesting one.

### TRANSITIONAL APPROPRIATION

The $40,049,000 request for Fiscal Year 1987 covers Labor Department billings for workers' compensation liabilities which arose from disabilities suffered by employees of the former Post Office Department prior to the creation of the Postal Service in 1971. For

Fiscal Year 1986 the Congress did not provide this appropriation, and there was evidently some expectation that the Postal service could cover the needed payment itself.

By law, these Post Office Department liabilities remain the responsibility of the United States and not the Postal Service. The Postal Service and ultimately the postal ratepayer are required to cover the full cost of workers' compensation which is attributable to current operations, but the laws recognize that it would be inappropriate to require present ratepayers to bear an additional burden which traces to the deficit operations before the Postal Service was created.

Accordingly, in this one respect the Postal Service is in much the same position as other agencies which rely on their annual appropriation request to obtain the funding to cover the workers' compensation billing from the Department of Labor.

## REVENUE FORGONE

The President has recommended no appropriation for revenue forgone as a result of statutory requirements for free mail and reductions in certain postage rates. The budget submission indicates that legislation will be submitted proposing to continue most of these subsidies by requiring the Postal Service to fund them through general postal revenues. Our position has been that if the Congress considers that postage subsidies are needed for some mailers, it should fund those subsidies.

The total funding which would be required to maintain free and reduced-rate mail at currently authorized levels for Fiscal Year 1987 would be $833,211,000. This amount would provide the difference in revenues from the rate levels which would apply if subsidized rates had not been authorized as compared to the reduced rate levels in effect. Under current law, if Congress decides not to provide the full appropriation, the Postal Service adjusts the reduced rates to make up the shortfall.

[The information follows:]

### PREFERRED PRICE LEVELS AND PERCENTAGE INCREASES

[Fiscal year 1986 illustrative examples] [1]

| | Current (step 16) prices (cents) | March 9 to Sept. 30[2] | | Regular (commercial) | |
|---|---|---|---|---|---|
| | | Prices (cents) | Percentage increases [3] | Prices (cents) | Percentage increases [3] |
| 2d-class publications: | | | | | |
| In county | 6.3 | 7.3 | 16 | 10.6 | 68 |
| Nonprofit | 8.2 | 8.8 | 7 | 10.6 | 29 |
| Classroom | 11.2 | 13.4 | 20 | 19.6 | 75 |
| Limited circulation | 9.3 | 9.9 | 6 | 11.6 | 25 |
| Science of agriculture | 10.8 | 11.0 | 2 | 11.6 | 7 |
| 3d-class nonprofit: | | | | | |
| Carrier route presort | 4.8 | 5.7 | 19 | 8.3 | 73 |
| Presort to 5 digits | 6.3 | 7.2 | 14 | 10.1 | 60 |
| Required presort | 7.4 | 8.7 | 18 | 12.5 | 69 |
| 4th-class library rate | 67 | 74 | 10 | 94 | 40 |

[1] See next page for "illustrative examples."

[2] Possible prices during the specified time period. Includes adjustments for the current appropriation shortfall plus the Gramm-Rudman reduction. If these prices were applicable during fiscal year 1987, early preliminary estimates indicate a revenue forgone appropriation requirement of $705,000,000.

[3] Percentage increaes are from current prices.

DESCRIPTION OF ILLUSTRATIVE PREFERRED RATE EXAMPLES

SECOND-CLASS PUBLICATION

In-county: Rural Newspaper—Frequency, Weekly; Weight, 4 ounces; Advertising, 50 percent; All delivered in County; Presorted to 5 Digits.

Nonprofit: Veteran's Magazine—Frequency, Monthly; Weight, 4 ounces; Advertising, 20 percent; New York to Chicago; Presorted to 5 Digits.

Classroom: Classroom Publications—Frequency, Weekly; Weight, 12 ounces; Advertising, 15 percent; New York to Chicago; 32 copies per piece.

Science of agriculture: Rural Agricultural Newspaper—Frequency, Weekly; Weight, 4 ounces; Advertising, 50 percent; Within 150 miles of entry; Presorted to 5 Digits.

Under 5,000 copies: Newspaper—Frequency, Weekly; Weight, 4 ounces; Advertising, 50 percent; Within 150 miles of entry; Presorted to 5 Digits.

THIRD-CLASS NONPROFIT

Fund-Raising Letter—Weight, ¾ ounce; Nationwide Distribution; Carrier Route Presort; Presorted to 5 Digits; Required Presort.

FOURTH-CLASS—LIBRARY RATE

Book Between Libraries—Weight, 2 pounds; New York to Chicago.

Mr. CASEY. Mr. Chairman, I will be pleased to respond to your questions.

APPROPRIATION REQUEST

Mr. ROYBAL. Mr. Casey, I see that your appropriation request is a reduction of $707,951,000 from the amount appropriated in the continuing resolution. But it is in fact $675,787,000 below the 1986 adjusted appropriation. Is that correct?

Mr. CASEY. I am not sure I understand. Is that allowing for the Gramm-Rudman $32 million?

Mr. ROYBAL. That would be allowing for the Gramm-Rudman $32 million.

Mr. CASEY. Yes. The answer is yes, Mr. Chairman.

Mr. ROYBAL. Is the Postal Service going to submit a supplemental request in 1986?

Mr. CASEY. Most likely the Governors of the Postal Service will vote to raise the preferred rates at their meeting next week, to become effective on March 9, and that will make us whole through the Fiscal Year 1986 period.

Mr. ROYBAL. So it will not be necessary to ask for a supplemental then?

Mr. CASEY. Not with respect to preferred rates.

Mr. CUMMINGS. That is correct.

Mr. ROYBAL. Or for any other purpose?

Mr. CASEY. Yes, we want a supplemental for Congress' franking privilege, which they are going to run short on.

Mr. ROYBAL. There would be no need for an additional amount for revenue forgone in any way?

Mr. CASEY. It is my understanding that with these revised rates, when they go into effect, we will not have to look for a supplemental appropriation.

REVENUE FORGONE

Mr. ROYBAL. With regard to revenue forgone for 1987, the President did not recommend funding for it. Yet you say that if the Congress considers that postage subsidies are needed for some mailers, it should fund those subsidies.

Mr. CASEY. Yes.

Mr. ROYBAL. Last year we funded the whole amount for revenue forgone. The President recommended zeroing it out, and we came in with an appropriation in excess of $800 million. That was vetoed.

Mr. CASEY. That is right.

Mr. ROYBAL. If we in this committee were to consider, present to the House and pass any additional amounts, would we be facing a veto?

Mr. CASEY. I would have to assume you probably would be.

Mr. ROYBAL. Would it be your recommendation, then, that we not go above the President's budget?

Mr. CASEY. No, it wouldn't be my recommendation. I think you have to decide. It would solve a lot of things if you could get that appropriation through, but in today's climate I would doubt that you can.

Mr. ROYBAL. Revenue forgone takes care of mail for the blind, does it not?

Mr. CASEY. Yes, sir.

Mr. ROYBAL. And many others?

Mr. CASEY. Many other handicapped individuals and nonprofit organizations.

Mr. ROYBAL. This is something that this committee has been most concerned about. We are facing a situation this year in which we are getting requests for supplementals and requests for increases in the 1987 budget, but we also are facing the possibility that if we comply with these requests from the various departments that there will be a veto.

Mr. CASEY. Yes, sir.

GRAMM-RUDMAN

Mr. ROYBAL. I guess problems will continue to arise for the rest of the year. What impact do you anticipate that Gramm-Rudman and last year's delay in raising rates will have on the rates that are currently being charged to preferred rate mailers?

Mr. CASEY. I think it is $51 million for "administrative expenses" under Gramm-Rudman and a $32 million reduction from the revenue forgone appropriation.

Mr. Cox. Under Gramm-Rudman?

Mr. CASEY. We may get the $32 million, that is, make up the $32 million, but we can't make up the $51 million. We have to find some place to realize the $51 million savings. The Office of Management and Budget told us to take the $51 million out of administrative expenses, and we have that under contest with them right now.

SUBSIDIZED MAILINGS

Mr. ROYBAL. The administration has proposed eliminating the total subsidy for the preferred rate mailers in 1987. What is your position with regard to this reduction? I am particularly interested in the impact that these reductions will have on these mailers.

Mr. CASEY. Under the law as it stands today, we would have to raise those preferred mail rates. Otherwise, we are cross subsidizing, and, as that is prohibited by law, we are in trouble. We can't win.

REVENUE FORGONE

Mr. ROYBAL. I am interested in going into the impact that revenue forgone has on the operation of the Postal Service. It was my understanding that revenue forgone does in fact help the Postal Service. Is that correct?

Mr. CASEY. The revenue forgone subsidy itself doesn't help the Postal Service, it's a subsidy of the mailers.

Mr. ROYBAL. What I am talking about is that the mail that comes through the Postal Service, as reduced rate mail comes in continously and is processed during the time when the Postal Service is not the busiest.

Mr. CASEY. Yes.

Mr. ROYBAL. Revenue forgone reduced rate mail then helps to keep things going, and as a result, it becomes helpful to the Postal Service.

Mr. CASEY. I think originally that was a very real contributing factor, but with the growth in First- and third-class mail that we have had which is so substantial—we don't have the lull periods anymore. We genuinely don't. There is just one continuous bow wave going through the system.

Mr. ROYBAL. That revenue forgone be eliminated, and everything be first-class mail—would that be a recommendation that you would make to this committee that we carefully consider?

Mr. CASEY. I think you would have to consider that, Mr. Chairman. We just can't fail to recapture what they call attributable costs and institutional costs—the overhead cost. If we miss recovering either one of those costs, we are going to have to dump those costs on another class of mailers, so the non-profit mailers, would be getting a semifree ride.

Mr. ROYBAL. Would you prefer that all mail be at the same rate?

Mr. CASEY. Well, it would be very nice. It will never happen, though.

Mr. ROYBAL. Would you prefer that?

Mr. CASEY. I think it would be much easier to handle, sir.

FREE MAIL PRIVILEGES

Mr. ROYBAL. If the subsidy for the free mail for the blind and overseas voting is eliminated, what would happen to the blind then? Would they have to then pay full price for any mailing that they do?

Mr. CASEY. Yes, they would, and it would work a great hardship on them. I don't think there is any question about that.

Mr. ROYBAL. Is that fair?

Mr. CASEY. I am not charged with being fair. I am charged with covering my costs.

Mr. ROYBAL. You have been able to cover your costs quite well. You have had a surplus. You made a profit.

Mr. CASEY. So far this year, that is true.

Mr. ROYBAL. As long as you make a profit, you cover your costs, don't you?

Mr. CASEY. You are absolutely right.

Mr. ROYBAL. Have you covered your costs because of the revenue forgone subsidy made available by the government?

Mr. CASEY. That was of some help, of course, a direct amount of help.

Mr. ROYBAL. I would say that that was a great help, because almost a $1 billion subsidy is a great help to any business.

Mr. CASEY. We get the money, but what you are doing is subsidizing the preferred rate mailers.

Mr. ROYBAL. I understand that.

Mr. CASEY. I know you do.

Mr. ROYBAL. I understand, but it helps your operations.

Mr. CASEY. Of course it helps. We would be that much worse off without it.

### RURAL AND 6-DAY DELIVERY

Mr. ROYBAL. What about continuing rural delivery and six-day delivery of mail at the present level?

Mr. CASEY. We are currently prohibited by an Act of the Congress from even inquiring into the elimination of one-day of delivery, so nothing is being done on that. Very honestly, the Postal Service is so loaded with mail that I don't, as a practical matter, think we could do it anyway. We need that sixth day to clear out the system.

Mr. ROYBAL. Are you saying then that you will continue with these?

Mr. CASEY. We expect to continue six days of delivery.

Mr. ROYBAL. Is it the firm intention of the Postal Service to continue rural delivery?

Mr. CASEY. No, I said six-day delivery.

Mr. ROYBAL. What about rural delivery?

Mr. CASEY. I don't know. I think you have got to look at it route by route by route. We genuinely are committed to the universality of service. There is no question about that, but sometimes through other means, through contracting out, we might be able to provide an equal or better mail service.

### REVENUE FORGONE

Mr. ROYBAL. It seems to me that the future of mail service insofar as the public is concerned is not that bright.

Mr. CASEY. I don't know why you draw that conclusion. We are handling increased volumes all the time.

Mr. ROYBAL. First of all, elimirating revenue forgone would adversely affect the blind and other handicapped individuals.

Mr. CASEY. That is Congress's wish, not the Postal Service.

Mr. ROYBAL. It is the administration that is not recommending that it be included in the budget. Congress must also make a decision, and we decided last year to include revenue forgone. Congress did in fact decide to continue the subsidy to preferred rate mailers.

Mr. CASEY. Yes.

Mr. ROYBAL. It went not only to the House, but also to the Senate.

Mr. CASEY. Yes.

Mr. ROYBAL. It went to conference, and it went to the President's desk, and he vetoed it.

Mr. CASEY. That is right.

Mr. ROYBAL. So it is not really the Congress. The Congress ultimately passed the funding legislation. It is not the Congress. The Congress, I think, has done a credible job with regard to the Postal Service, and I think we have been more than fair.

Mr. CASEY. General Counsel Cox has something to say.

### FREE MAIL PRIVILEGES

Mr. COX. I just wanted to interject, Mr. Chairman, on free mail for the blind, we have understood for some years, as I believe you will recall, that if any revenue forgone is going to be left, bear in mind, we have asked for the full authorized revenue forgone appropriation, even though the administration has not, we will apply that amount to continuation of free mail for the blind.

We have asked for the full amount, but if there is going to be some diminution in that full revenue forgone appropriation, so long as anything is left, we understand the Congress wishes us to apply that amount to subsidize the free mail for the blind, and I would respectfully suggest to the extent that your subcommittee and anyone else involved in the relevant legislative process can make that intention clear, it is going to help us honor what you wish us to do.

Mr. ROYBAL. Make what intention clear?

Mr. COX. That any revenue forgone appropriation is to be applied first to continue free mail for the blind, and, of course anybody else that the Congress chooses as kind of a particularly preferred subset within the preferred mail categories.

### PREFERRED RATE MAILERS

Mr. ROYBAL. But the Congress has already chosen the full amount for revenue forgone last year. If we do it again, what I am worried about is, what will happen. Now there has to be some orderly way of making the nation aware of what can be done about the blind and about the handicapped and about the nonprofit organizations that need the subsidy. I agree that there are newspapers, for example, that are included under revenue forgone.

Mr. CASEY. That is right.

Mr. ROYBAL. I don't think all newspapers now included should be included.

Mr. CASEY. You also have the political parties included.

Mr. ROYBAL. Many other things are included, as well. We should look at that very carefully and just subsidize those items and individuals that actually need it. First of all, not only the Congress, but

the administration also should be willing to look at this thing from a very realistic standpoint, and make appropriate recommendations. What I am saying is that this is not a one-way street.

Mr. CASEY. No.

Mr. ROYBAL. It has to come from the administration and from the Congress, and we have to——

Mr. CASEY. I think you are far more qualified to determine the preferred mailers than is the postal system. I think that is what Mr. Cox is saying.

Mr. COX. Yes, sir.

Mr. ROYBAL. Perhaps, yes.

Mr. CASEY. We are not qualified to make those selections. We are really not.

Mr. ROYBAL. Yes, and you have made recommendations as to revenue forgone for the Postal Service.

Mr. CASEY. Yes.

Mr. ROYBAL. While the administration has not.

Mr. CASEY. That is correct.

Mr. ROYBAL. So in this particular instance we agree.

Mr. CASEY. Yes.

Mr. ROYBAL. What I am saying is that I am just hoping that somewhere down the line not only the Postal Service together with this committee, but this committee with the administration can come up with a solution with regard to this problem, because it is a problem.

Mr. CASEY. Of course it is. It is a problem for society. We have had discussions with Congressman Ford, and we just think that Congress is a lot better qualified than we are to determine who should get that limited benefit.

Mr. ROYBAL. But we would also like to have the cooperation of the Postal Service.

Mr. CASEY. I appreciate that very, very much, I really do.

Mr. ROYBAL. If we don't have the cooperation of the Postal Service, why kid ourselves in passing legislation that is liable not to be well implemented.

Mr. CASEY. We intend to give you every bit of cooperation possible. We need you more than you need us.

Mr. SKEEN. It is sure nice to know.

GRAMM-RUDMAN

Mr. ROYBAL. Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman.

Mr. Casey, I want to welcome you.

Mr. CASEY. Thank you very much, Congressman.

Mr. SKEEN. I think you bring a refreshing kind of approach to the Committee, and I have a sense that you are not afraid to enter into the oratorical combat that is required to make these determinations. We appreciate that.

Mr. CASEY. I shall try, sir.

Mr. SKEEN. Good.

We have a problem with revenue forgone.

Mr. CASEY. Yes, we do.

Mr. SKEEN. We are going to bounce it back into the House and we are probably going to pass it, and we are probably going to make ourselves veto bait once again.

Mr. CASEY. It is appropriate that you do.

Mr. SKEEN. Now I would like to know what kind of communication are you getting out of OMB on this legislation. What is OMB telling you?

Mr. CASEY. That we are the only agency that has not complied with the Gramm-Rudman Act. I have received a letter from the Department of Justice that we should be put in fetters April 1st, because they told us on that $51 million, Mr. Chairman, that we have to take it out of a category called "administrative expenses".

Mr. SKEEN. I want to ask you a little bit about that, too. Go ahead.

Mr. CASEY. I just refused to go along. I said we will be a good team member, we will give you the $51 million, but you can't tell me where to take it out of, because what OMB did was make up their own category called "administrative expenses," a major part of which is postmaster salaries.

Mr. CUMMINGS. One-third of all postmaster salaries would be part of the base.

Mr. CASEY. Yes, and there is no way we can run the Postal Service on that order. I am having lunch with Mr. Miller next Tuesday.

Mr. SKEEN. We are having lunch with him today. We may want to talk with him about this same question. I think that is part of our problem.

Mr. CASEY. It is part of the problem.

Mr. SKEEN. They keep saying that they are going to send us legislation regarding an equitable funding approach to the revenue forgone issue.

Mr. CASEY. Yes.

Mr. SKEEN. And I don't think you folks have heard what they have proposed.

Mr. CASEY. No.

Mr. SKEEN. Nor have we.

Mr. CASEY. No.

Mr. SKEEN. It makes this process very difficult. I don't know how we will comply with all the requests from OMB, if we are not getting any communications from them. They may be very busy, but for this subcommittee, revenue forgone is one of the biggest problems that we have, because it accounts for most of the disagreement we have with OMB for the FY 87 budget.

Mr. CASEY. It really does.

## FEDERAL BUDGET

Mr. SKEEN. No one has given us any idea how you are going to finance revenue forgone. You don't like cross subsidies.

Mr. CASEY. It is not permitted under law.

Mr. SKEEN. I know you are not permitted to, but if we permit you to cross-subsidize?

Mr. CASEY. I don't like them then.

Mr. SKEEN. And I don't either. But this is one of the solutions that the genies around here are coming up with.

Mr. CASEY. There is another solution that would be helpful.

Mr. SKEEN. Let's hear it.

Mr. CASEY. Take us out of the unified budget. They just put us into the unified budget. Therefore, if we build a post office for $10 million, it adds to the government's deficit. If you leave me out of the unified budget, with just ordinary normal accounting practices, I can depreciate that capital investment over a period of time, and I don't aggravate the federal budget. They asked for this problem by taking us into the unified budget. This is the first year we are in.

Mr. SKEEN. This is the first year?

Mr. CASEY. Yes, it is. It is Stockman's legacy.

Mr. SKEEN. We have got a lot of good legacies with Stockman.

This is the essence of the problem, and I know that there have been some abuses of revenue forgone. We tried to pull some of the major publications out last time. We failed to get that job done, as I recall.

Mr. CUMMINGS. You did do that.

Mr. SKEEN. We did do that.

Mr. ROYBAL. The language was put in.

### GRAMM-RUDMAN

Mr. SKEEN. In light of the financial status of the Postal Service, and the $51 million Gramm-Rudman reduction, how is this going to affect rates and operations?

Mr. CASEY. Actually, this year I don't think it will have a significant impact, because this is our first full year, basically, at the 22-cent stamp rate.

Mr. CUMMINGS. First full year.

Mr. CASEY. The first full year. So we have a modest profit so far this year, but we have now cycled out. It was just a year ago we had the First-class rate go up to that level, and for the rest of this year we will probably lose money or break even because the summer is a bad volume period.

Mr. SKEEN. You are going to have just local operations in light of this?

Mr. CASEY. That is a long subject, sir. If you want me to go into it, I will be glad to.

Mr. SKEEN. Why don't you make it as short as you can.

Mr. CASEY. I can't wear you down with the whole thing?

Mr. SKEEN. No, I am hard to wear down.

### POSTAL SERVICE REALIGNMENT

Mr. CASEY. The reason I was brought in was to do a certain amount of management rearrangement and strategic planning. We announced last Thursday a very major field reorganization of the Postal Service and we are going to place the greatest strengths of the Postal Service—the management and the services—into 80 units, so they will be close to the field. The services will be available much lower down. There will be eliminated two levels of reporting, to get authority, to get permission.

Mr. SKEEN. It is a general streamlining of your upper echelon management?

Mr. CASEY. Yes, and this is going to improve the local service. We are going to have to improve the local service, because otherwise we are going to be nibbled to death.

Mr. SKEEN. What you are saying to me is you are going to try to keep your funding effectiveness at the delivery level?

Mr. CASEY. Absolutely.

Mr. SKEEN. As much as you can?

Mr. CASEY. Yes.

Mr. SKEEN. At the expense of the top?

Mr. CASEY. Yes.

Mr. SKEEN. The upper echelons of management?

Mr. CASEY. We expect to.

Mr. SKEEN. That is very refreshing too, because most government entities do just the reverse.

Mr. CASEY. This is the reverse.

Mr. SKEEN. They take it out of the field and put it back in the administration.

Mr. CASEY. No, the strength belongs at the field level. There is just no question about it.

GRAMM-RUDMAN

Mr. SKEEN. I don't know, but there is a statement that has been made that the Postal Service should not be included in the Gramm-Rudman sequestering.

Mr. CASEY. That is correct.

Mr. SKEEN. Give me some idea how Gramm-Rudman will affect the Postal Service.

Mr. CASEY. Lou, you quote the law and I will quote the emotion.

Mr. Cox. On the law side of the thing, I guess we have two things principally in mind. One of them is a provision in Gramm-Rudman itself which I suppose can be interpreted in more than one way, but as you I think would remember, Mr. Skeen, the Gramm-Rudman Act does say, "Notwithstanding any other provisions of law, administrative expenses of any program, project, activity or account which is self-supporting and does not receive appropriations shall be subject to reduction under a sequester order, unless specifically exempted in this joint resolution."

Now, I think you are aware that we are in that broad panoply of organizations listed there that are exempt.

Mr. Cox. But the other thing that I would add to that is that we read this as we think reasonable folks ought to—in light of the Postal Reorganization Act. You, I suspect, on this subcommittee, are well aware that when the Postal Service was set up on its present basis in 1970, all the normal statutory framework that attaches to federal appropriations, budgets, funding, Comptroller General review, Antideficiency Act, and so forth, all of that was rendered inapplicable to the Postal Service. We were set up differently, as we have said in some of the correspondence on this subject.

We had our own balanced budget legislation, the 1970 legislation. If this were to go to court, this question whether Gramm-Rudman applies to us, how would a court be likely to fall out on the darn thing, and it is a close question. We say, the court would probably

ask itself did the Congress really intend in Gramm-Rudman to dismantle that carefully constructed "financially independent Postal Service stand-on-your-own-feet provision of 1970," when it passed Gramm-Rudman.

As I said, it is probably a close question, and reasonable men can and surely do differ on it. But it seems to me there is a very good chance the court would say no, we are not subject to Gramm-Rudman. So that is the essence of how we look at this.

Mr. SKEEN. It is still open to probably a question of judicial settlement. No one has posed the question to them yet.

Mr. CASEY. That is right.

Mr. SKEEN. Is it possible?

Mr. COX. I don't see it as a realistic possibility—going to court over this thing. I only bring that in as a way of helping us understand how the law should be interpreted.

Mr. SKEEN. Let me ask you this. What happens to the $51 million in the reduction? Does this go back to Treasury?

Mr. CASEY. No. What happens is that we reduce our expenses by $51 million.

Mr. SKEEN. There is no deficit?

Mr. CASEY. We will probably make some money this year.

Mr. SKEEN. We hope.

Mr. CASEY. We will make more money by reducing expenses by $51 million. That is all that means. In the consolidated unified budget, they will have a lower deficit by reason of $51 million.

Mr. CUMMINGS. Or we could get $51 million more in revenue. It wouldn't matter to the unified budget. As Mr. Casey has told OMB, rather strongly—we will pledge to be a team player and get the $51 million, so our operations for the year will be $51 million better, and therefore the budget of the United States will be $51 million better. It is a combination of reduction of expenses and more revenue or all one side, it doesn't really matter.

Mr. SKEEN. That is the explanation to the statement made earlier that we nevertheless plan to improve fiscal year 1986 financial results reflected in the Postal Service Fund by at least $51 million?

Mr. CASEY. That is exactly correct, and we will do it, and it will be measurable.

### RURAL POST OFFICE CLOSINGS

Mr. SKEEN. One last area of concern that I have is rural post office closings. Where do we stand now on that situation? There is an intention, I understand, to close 240 rural post offices. We are sensitive in rural areas in the western part of the United States.

Mr. CASEY. I really don't know that figure at all. I never heard of that figure. We have no program to close rural offices.

Mr. SKEEN. We have heard these figures from a number of press reports.

Mr. CASEY. You can't always trust newspapers, we know that.

Mr. SKEEN. And then the appeals situation that you have. You closed 200 and some odd post offices, and you had 20 appeals. The decision went to the rural residents twice, and the Postal Service 18 times, and two other appeals were withdrawn. That is a very low number. I guess everyone concurred with the findings?

Mr. CASEY. We move very, very slowly on rural post office closings.

Mr. SKEEN. We are not arguing with you. I am just real curious, because the justification for some of these, at times it has been somewhat capricious, or seemingly so. I was just curious as to how well it works for you.

Mr. CASEY. It works pretty well for the Postal Service.

Mr. SKEEN. It works very well for the Post Office, yes. Sixteen out of 20 is not bad. Thank you very much.

Mr. CASEY. You are very kind. I am delighted to meet you, Mr. Congressman.

### POSTMASTER GENERAL TENURE

Mr. ROYBAL. Mr. Hoyer.

Mr. HOYER. Mr. Casey, I want to first ask you, and preface this with this: I am sure all of us are appreciative of the fact that you were willing to come in I guess on relatively short notice, to take on this responsibility. How long do you foresee yourself being in this position?

Mr. CASEY. I would say no longer than Labor Day. I have already accepted the other position. I intend to honor that commitment, if possible.

Mr. HOYER. What is the present status of the search for a successor?

Mr. CASEY. I think I am doing more looking than anybody else.

Mr. HOYER. You have the greatest incentive.

Mr. CASEY. Yes, that is exactly right. There are a couple of people being considered right now, more by me than by the Governors. I am sort of the first layer of the grid.

Mr. HOYER. We appreciate, again, your taking this responsibility.

Mr. CASEY. I love the job. It is terrific.

### REVENUE FORGONE

Mr. HOYER. Let me ask you, revenue forgone obviously is about the only thing we have real control over in the final analysis in terms of the budget. The Board of Governors consistently asks for the revenue forgone, since I have been on the committee, which is not a long time.

Do you have prepared the figures for us that I asked for last year as well, of the ramifications of the President's proposed budget as it relates to eliminating revenue forgone on the various categories of users?

Mr. CASEY. Second, third and fourth class?

Mr. CUMMINGS. Are you referring to this chart we have supplied to you?

Mr. HOYER. The one I am looking at is entitled "Preferred Price Levels and Percentage Increases." Is that the one you are referring to?

Mr. CUMMINGS. Yes.

Mr. HOYER. That indicates as of March 9, with Gramm-Rudman, that in county rates, for instance, for second-class publications, which was increased 31 percent between January 1 and January 17, as a result of Gramm-Rudman will be increased an additional

16 percent. I don't know what cumulatively that percentage increase is, 4.8 percent and 7.3. I guess it is less than 52 percent. I guess it would be pretty close to that.

Mr. CASEY. It would be pretty high. It would be a big percentage.

Mr. HOYER. Yes. My question therefore is, if we adopted the President's proposal, what does that go to?

Mr. CUMMINGS. They go to the commercial rate.

Mr. CASEY. You would go from 7.3 to 10.6.

Mr. HOYER. So there would be—

Mr. CASEY. Another 45 percent increase.

Mr. HOYER. A hundred and some odd percent increase?

Mr. HOYER. A hundred and some odd percent increase cumulatively?

Mr. CASEY. Yes.

Mr. HOYER. It would be 7.3 and it goes to 10.6?

Mr. CASEY. 10.6.

Mr. CUMMINGS. Could I ask you a question?

Mr. HOYER. Yes, sir.

Mr. CUMMINGS. I just want to make sure I understand your question. You said if we adopt the President's proposal of no revenue forgone appropriation whatsoever?

Mr. HOYER. Yes, sir.

Mr. CUMMINGS. Okay.

Mr. HOYER. If you have that document, I would like, Mr. Chairman, if I could, request that it be submitted for the record, because I think we ought to know what the ramification of the proposal would be on second-class, third-class, and fourth-class users.

Mr. CASEY. We certainly can do that.

Mr. HOYER. That obviously is a policy decision as to whether or not we want to have that impact on those mailers, which is always a policy decision. And quite frankly, as you well know, consistently the Congress opts to continue the subsidy for these special ratepayers.

### IMPACT OF PRESIDENT'S BUDGET—RETIREMENT

Mr. Casey, you may not have really gotten into this, but the President, as he has done in the past, has proposed significant personnel changes as it reflects retirement and retirement benefits. Have you made an analysis as to how that would affect the Postal Service.?

Mr. CASEY. Yes, sir.

Mr. HOYER. And do you have cost impacts of the proposals?

Mr. CASEY. We have it all in my recent letter to Congressman Ford.

Lou, is that right?

Mr. HOYER. In response to Congressman Ford?

Mr. CASEY. Yes. I can give you a copy.

Mr. HOYER. Can we have a copy of that for the record also?

Mr. CASEY. Certainly. I think I have one here that I could leave with you today, but I would rather provide the whole committee with it. There is this little statement that gives a good summation of it. $711 million would be one item, that is on the pension plan, and then there would be another $881 million as we try to fund the plan. Let me give you the letter.

[The information follows:]

THE POSTMASTER GENERAL
Washington, DC 20260-0010

February 14, 1986

Dear Mr. Chairman:

We wish to respond to your letter of February 6, 1986, requesting our views on Fiscal Year 1987 budgetary issues involving the Postal Service.

The Postal Service's current budget estimate for Fiscal Year 1987, based on present legal requirements, shows a net operating deficit of $440 million. We are determined to take whatever measures are needed to improve this amount so that the deficit would be reduced to zero. Under the outlay accounting system used in the general federal budget, this improvement would reduce the outlay figure shown for the Postal Service by approximately the same $440 million amount.

The Postal Service will adapt to any additional legislative requirements coming out of the federal budget and appropriations process which affect its financial results. The major question is one of timing. Nationwide service responsibilities and the length of the postal ratemaking process preclude the Postal Service from adjusting its operations abruptly to accommodate very large changes in financial requirements within the government's usual fiscal year budgetary focus. Even though appropriation and budget reconciliation measures may not be completed until immediately before, or sometime after, the fiscal year begins, the Postal Service will still require substantial notice in order to prepare to meet its new responsibilities. In order for the Postal Service properly to discharge its revised obligations, the effective date of major new financial obligations must be set at least two years after enactment and those which would affect postage rates very substantially should be phased in over a period of years.

We understand that the Postal Service must pull its own weight and not contribute to the general deficit situation which the Administration and the Congress are trying to resolve. We are certain that you appreciate that. This does not mean that expenses which the general treasury cannot afford should simply be shifted to the postal ratepayer. The Postal Service bears the responsibility to manage its operations so as to keep its prices as moderate as possible. Furthermore, the Postal Service and postal ratepayers should not be expected to assume more than the cost of the services being provided.

With these general observations as prologue, the following comments address each of the specific proposals mentioned in your letter in turn.

1. "The effect of increasing Postal Service payments to the Civil Service Retirement Fund from 7 percent to 9 percent; the impact on the Postal Service of the President's other civil service retirement 'reform' proposals".

The President's budget submission proposes to revise the Civil Service Retirement program to restrain benefit costs and increase employee and employer contributions by two percent each. Concurrently, it proposes to move toward charging the Postal Service (and the District of Columbia's off-budget account but no others) the "full cost" of employee pensions less employee contributions, starting at two percent above the standard employer contribution and increasing by an additional two percent each year. For Fiscal Year 1987 these proposals would increase the retirement contribution required of government employers including the Postal Service from the present seven percent to nine percent. For the Postal Service there would be an additional two percent charge toward meeting "full cost", bringing its total required contribution to eleven percent. The estimated additional cost to the Postal Service for FY 1987 is $434 million.

Currently pending before the Congress is legislation to establish a new retirement program for employees hired after 1983 and to require the Postal Service to "fully fund" the cost of this system for postal employees. The estimated cost to comply with this legislation for FY 1987 is an additional $300 million to $400 million, depending on how differences between Senate and House versions are resolved.

The Postal Service supports efforts by the Administration and the Congress to restrain the cost of federal pensions. Most Postal Service employees are very well paid in comparison to private sector employees. Pensions more generous and costly than are provided for comparable work in the private sector are not warranted for postal employees.

The Civil Service Retirement program is not a fully funded system and would not become one under these proposals. We are troubled by the implications of charging the Postal Service and its employees as if postal employee pensions were fully funded when in fact those payments are merged into the general system so that postal pensions will be payable by a system which continues not to be fully funded. In addition, we are concerned that the Postal Service will not be afforded due process in the determination of the huge amounts to be paid. At a minimum, we believe the Postal Service should have access to the courts or an equally impartial arbiter to resolve any questions which may arise about the amounts which it is asked to pay.

2. "The impact of the proposed payment by the Postal Service of the full costs arising from postal annuitants' participation in the Federal Employees' Health Benefits Program."

The budget proposal calls for the Postal Service and postal ratepayers to assume the cost of health benefit premiums for postal annuitants. Applied to all postal annuitants including those already retired, this proposal would add an estimated $343 million to our costs for Fiscal Year 1987.

The Postal Service has no objection to assuming responsibility for the future annuitant health benefit premiums of its present employees. We do not believe that such premiums for annuitants who retired from the former Post Office Department can properly be considered a cost of postal services now provided which should be charged to present ratepayers. Unfunded liabilities attributable to the operations of the Post Office Department have remained the responsibility of the United States.

Moreover, we believe that any change should be entirely prospective so that postal ratepayers will not be charged for premiums payable for annuitants who have already retired since the establishment of the Postal Service. Under current law ratepayers were not to be charged for these costs because the Postal Service was permitted no control over them. The President's proposal looks beyond the control factor to view taxpayer funding of these premiums as indirect subsidies to postal operations. If this view is accepted, in the case of premiums for employees who have already retired what the taxpayers are subsidizing are the postal services which these employees helped to provide while they were still working. The Postal Service faces a challenging but appropriate assignment to manage its operations in the period ahead so that its services pay for themselves. To add to that load

through a change in the rules with respect to the funding consequences of past operations would subject postal ratepayers to a double burden, to pay more than what it costs to provide their present services.

Perhaps because the President's budget recommended approval of the related appropriation, your letter did not specifically mention the matter of the workers' compensation payment due the Department of Labor in Fiscal Year 1987 on account of injuries suffered before postal reorganization by employees of the Post Office Department. We deal with the matter here because the appropriation was not provided for Fiscal Year 1986 and because some in Congress have proposed that the Postal Service should assume this liability. Current law makes these, like other liabilities attributable to postal operations before the 1971 reorganization, liabilities of the United States and not the Postal Service. If the laws were changed to reverse this responsibility, the cost to the Postal Service for Fiscal Year 1987 would be $40,049,000. Each year the Postal Service books as an expense for rate purposes the full increment to its estimated long-term workers' compensation liability which is likely to be incurred as a result of providing service during the year. Postal ratepayers should not be saddled with the additional responsibility to offset the effects of deficit operations before postal reorganization.

3. "The elimination of the authorization for the entire revenue forgone appropriation (including the President's plan to continue some or all of the affected rate subsidies from general postal revenues)."

The President's budget submission proposes to terminate revenue forgone appropriations to the Postal Service but to require the Postal Service to provide certain preferred-rate subsidies. The net effect of this proposal for Fiscal Year 1987 under the Postal Service's accrual accounting system is estimated at a negative $717 million.

We in the Postal Service do not enjoy any official expertise or perspective, beyond the personal feelings which any citizen might have, to enable us to advise the Congress whether current subsidies for particular postage rates should be eliminated or continued. The issues involved are necessarily social and political.

We do have concerns about separating the responsibility for determining what is subsidized from the responsibility to pay for the subsidies, by funding these subsidies from general postal revenues. The Postal Service is required to serve the

entire Nation at fair and reasonable rates. Mailers normally must pay their fair share of postage for the services they receive. Current law enables the Congress to assume responsibility for a share of the postage which favored categories of mail would otherwise pay by providing appropriations to cover it. The mailers who are already paying the entirety of their own share should not be expected to shoulder an additional responsibility for part of the postage properly belonging to other mailers if the Congress decides it can no longer afford to fund the subsidies.

In overview, the financial consequences of each of the foregoing items would be substantial for an organization which already needs to realize a $440 million improvement in its projected financial results for Fiscal Year 1987, as we are determined to do. The Postal Service has planned to try to postpone the need for the next general rate adjustment as long as possible. Additional responsibilities of the magnitude of any of the major items mentioned would adversely affect our forecasted cash position so that the next rate filing would need to be advanced. If several of these proposals were approved in their present form, the cumulative effects just in Fiscal Year 1987 could be so large that the Postal Service would be unable to avoid filing for new rates as soon as possible.

In providing our comments to you on these matters, we find it necessary to address a related area which in some ways touches each of the items discussed above. We believe that the recent decision to try to begin dealing with Postal Service financial results "on budget" under standard government outlay accounting both incorrectly portrays the Postal Service's financial picture and undermines the overall efforts to address the federal budget deficit problem. Outlay budgeting provides a distorted, artificial view of our financial situation because it fails to reflect that the Postal Service is funded on the basis of accrual accounting and must break even from its own revenues over a period of years. This artificial recasting of our internal budget affects the rest of the government because the outlays which it shows for the Postal Service influence the achievement of outlay targets for the government as a whole. In addition, to the extent the general effort to reduce the federal deficit counts any of the progress which we expect to make within the Postal Service toward overall outlay targets, that reliance will prove misplaced as our rates adjust themselves to pass along the benefit of internal savings to the postal ratepayers.

The Postal Service already has a balanced budget responsibility in the form of the break-even requirement in the Postal Reorganization Act and cannot wait until 1991 to meet it. Progress by the government toward its deficit reduction targets can be affected by proposals which would place additional charges on the Postal Service, but the break-even requirement will assure that the Postal Service meets its responsibilities without the need to include postal financial results in altered outlay form within the general deficit-reduction process. A change which would place the Postal Service Fund account back off budget where we believe it belongs would have the effect in Fiscal Year 1987 of enabling the general federal budget to realize immediately the benefit of any additional charges which the Postal Service may be required to pay. Under the present on-budget treatment, outlay savings from such changes in funding requirements would not be recognized until the Postal Service could start bringing its outlays and revenues back into balance.

We appreciate your invitation to assist the Committee in its consideration of these matters and will be pleased to provide whatever help we can as the process moves forward.

Sincerely,

Albert V. Casey

Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives
Washington, D.C. 20515-0001

PREFERRED PRICE LEVELS AND PERCENTAGE INCREASES
FY 1986 ILLUSTRATIVE EXAMPLES 1/

| | Current (Step 16) Prices | March 9 to Sept. 30 2/ Prices | March 9 to Sept. 30 2/ Percentage Increases 3/ | Regular (Commercial) Prices | Regular (Commercial) Percentage Increases 3/ |
|---|---|---|---|---|---|
| **Second-Class Publications** | | | | | |
| In County | 6.3¢ | 7.3¢ | 16% | 10.6¢ | 68% |
| Nonprofit | 8.2¢ | 8.8¢ | 7% | 10.6¢ | 29% |
| Classroom | 11.2¢ | 13.4¢ | 20% | 19.6¢ | 75% |
| Limited Circulation | 9.3¢ | 9.9¢ | 6% | 11.6¢ | 25% |
| Science of Agriculture | 10.8¢ | 11.0¢ | 2% | 11.6¢ | 7% |
| **Third-Class Nonprofit** | | | | | |
| Carrier Route Presort | 4.8¢ | 5.7¢ | 19% | 8.3¢ | 73% |
| Presort to Five Digits | 6.3¢ | 7.2¢ | 14% | 10.1¢ | 60% |
| Required Presort | 7.4¢ | 8.7¢ | 18% | 12.5¢ | 69% |
| **Fourth-Class Library Rate** | 67¢ | 74¢ | 10% | 94¢ | 40% |

1/ See next page for "Illustrative Examples."
2/ Possible prices during the specified time period. Includes adjustments for the current appropriation shortfall plus the Gramm-Rudman reduction. If these prices were applicable during FY 1987, early preliminary estimates indicate a revenue forgone appropriation requirement of $705 million.
3/ Percentage increases are from current prices.



2-6-86

## DESCRIPTION OF ILLUSTRATIVE PREFERRED RATE EXAMPLES

**Second Class Publication**

**In-County**
- Rural Newspaper:
  - Frequency: Weekly
  - Weight: 4 ounces
  - Advertising: 50%
  - All Delivered In County
  - Presorted to 5 Digits

**Nonprofit**
- Veteran's Magazine
  - Frequency: Monthly
  - Weight: 4 ounces
  - Advertising: 20%
  - New York to Chicago
  - Presorted to 5 Digits

**Classroom**
- Classroom Publications
  - Frequency: Weekly
  - Weight: 12 ounces
  - Advertising: 15%
  - New York to Chicago
  - 32 copies per piece

**Science of Agriculture**
- Rural Agricultural Newspaper
  - Frequency: Weekly
  - Weight: 4 ounces
  - Advertising: 50%
  - Within 150 miles of entry
  - Presorted to 5 Digits

**Under 5,000 Copies**

- Newspaper
  - Frequency: Weekly
  - Weight: 4 ounces
  - Advertising: 50%
  - Within 150 miles of entry
  - Presorted to 5 Digits

**Third Class**

**Nonprofit**
- Fund-Raising Letter
  - Weight: 3/4 ounce
  - Nationwide Distribution
  - Carrier Route Presort
  - Presorted to 5 Digits
  - Required Presort

**Fourth Class**

**Library Rate**
- Book Between Libraries
  - Weight: 2 pounds
  - New York to Chicago

Mr. HOYER. If you could, Mr. Casey.
Mr. CASEY. Certainly.

IMPACT OF PRESIDENT'S BUDGET—RATES

Mr. HOYER. I would like to have that, and secondly, if you could append to that letter something which I understand is not in it, and that is an additional analysis on the impact to the ratepayer of those proposals. In other words, you have just given me figures of about, what, $1.5 billion?

Mr. CASEY. Yes.

Mr. HOYER. Eight hundred and seven hundred.

Mr. CASEY. I really don't expect that the proposals will survive in the budget as such, but I will be glad to give you the numerical calculations as to what they would do.

Mr. HOYER. Mr. Casey, I hope it doesn't survive. I will oppose it and hope to be sucessful along with a lot of other folks. However, again what I want to get at is the ramifications of the President's proposal.

Mr. CASEY. Sure. It will be enormous.

Mr. HOYER. I agree with you, and I want to be able to tell the American public it will be enormous, and you are the responsible party to tell me what the ramifications will be in terms of numbers.

Mr. CASEY. We can certainly do that, sir.

[The information follows:]

PRESIDENT'S BUDGET PROPOSAL ON DYNAMIC FUNDING OF UNFUNDED RETIREMENT LIABILITY AND ANNUITY HEALTH COST-IMPACT ON RATES

The specific amount and timing of postage rate increases due to dynamic funding cannot be pinpointed since other financial considerations would weigh heavily on decisions regarding postal rates. However, according to the Office of Personnel Management estimates, dynamic funding will cost $1.4 billion in FY 1991 and can be expected to grow in subsequent years. Using the $1.4 billion forecast, we can roughly estimate the impact on rates apart from any other required increase. A cost increase of that magnitude could require a 1-cent increase in the First-Class postage rate and equivalent or higher increases in all other mail classes.

POSTAL PERSONNEL COMPARED TO THE PRIVATE SECTOR

Mr. HOYER. A last question, sir, if I might. You obviously have had a most distinguished career in the private sector.

Mr. CASEY. You are very kind.

Mr. HOYER. All of us I think are admirers of what you have accomplished in the private sector. I ask this question as you may know, Mr. Casey, I represent some 63,000 active federal employees who are from time to time maligned by those in the government and certainly by many outside of the government.

In light of your distinguished career as a manager and major businessman in our country, can you give me a comparison and your observations with respect to the quality of personnel that you have found in public service in federal service, in terms of morale, in terms of commitment, in terms of productivity, as it relates to your experience in the private sector.

Mr. CASEY. Obviously my experience in the Postal Service is limited. With that caveat, I would say that the vast majority of the

people there that I have come into contact with are very dedicated, and very loyal. To get those letters delivered is a cause with them. They really genuinely believe in it. I don't think—and I have given this speech a couple of times—that they are as much maligned as people in the newspaper business or people that try to schedule an airline. If you are going to do business with the public, you are going to have to stand the heat in the kitchen, you really are.

Mr. HOYER. Mr. Casey, I understand that, and I agree with you.

Mr. CASEY. They are really wonderful, fine human beings.

Mr. HOYER. When it happens to us it is always more personal than when it happens to the other guy.

Mr. CASEY. Of course it is. They are oversensitive.

Mr. HOYER. Mr. Casey, I would like to home in, because the perception is—and I have asked some of the major business leaders that this administration has brought into office, who are good people, and almost to a person they have consistently replied to me that they have found in the public sector equally qualified, capable and committed people, that they have had the opportunity of working with in the private sector, and my question to you really is: Has your experience been consistent with that?

Mr. CASEY. Absolutely. There is just no question about it at all.

Mr. HOYER. Thank you. I appreciate it, sir.

Mr. ROYBAL. Mr. Wolf.

Mr. WOLF. Thank you. I apologize for being late. I have a whole series of questions. If I could submit a couple of them in writing.

Mr. CASEY. Whatever your pleasure is, that will be fine.

### TAX ON RETIREMENT ANNUITY

Mr. WOLF. Let me just ask you a couple. I would like to follow up on what Congressman Hoyer was talking about regarding the tax bill. It passed the House by a large majority although the fingerprints of the Democratic and Republican party are on it because the administration sent up basically the same proposal. There is a segment which would basically penalize federal employees at retirement by making them pay taxes on money that they contributed to their civil service pension. This affects all retirement fund contributions like in the Postal Service, the FBI or CIA. Under current law, when they withdraw their contribution and retire, that money is not taxable because they have already paid taxes on it.

Mr. CASEY. They have paid the taxes.

Mr. WOLF. The administration sent up a bill which would change that. Individuals will begin to pay taxes right away on it, and the current three-year recovery basis would be scattered over 20 years. Congressman Hoyer and I have been working together to contact different agencies for information on the impact this proposal could have.

The FBI said it would devastate them. Roscoe Egger was here the other day saying what an impact it has had on IRS. At the very time they are trying to get taxpayer compliance up, it goes the other way.

I know you are new and I am not trying to put you on the spot. You don't have to give me a categorical answer now, but have you found that this has had an impact on the Postal Service? Have you

had an exceptional degree of retirements, and are your current people who are eligible to retire now talking about getting out?

Mr. CASEY. Sure. The answer is yes. There is no question it is going to have an enormous impact on the senior employees who have long service and fairly good salaries. It would have a devastating impact.

Do you know the numbers?

These will be the officer level.

Mr. CUMMINGS. No, just below the officer level.

Mr. CASEY. I have learned something by coming here.

Mr. CUMMINGS. Forty-three percent of them could be eligible, but I would like to double check that number and supply it to you for the record.

Mr. CASEY. Of what number of people?

Mr. CUMMINGS. About 800 of the senior people.

Mr. CASEY. That is the group.

Mr. SKEEN. That is the 43 percent?

Mr. CASEY. Forty-three percent of the 800 people would be eligible.

Mr. CUMMINGS. Let me double check that.

Mr. WOLF. Is there talk around the building—there it is in the FBI and all of the other agencies—that "if this thing sticks, I am getting out?" I would not be surprised since this could mean the loss of up to $10,000 to $25,000 for the average employee.

Mr. Casey, you would be interested to know the Savings Bonds, people at the Department of the Treasury have a flyer out which says: "Buy savings bonds now, because you can cash them in the year you retire, because your annuity for those couple of years won't be taxed because you have already paid taxes on it." We have one agency, one arm of the Treasury, saying buy bonds, and the other arm is saying wipe out this incentive. What is the talk around the Postal Service?

Mr. CASEY. They are all very concerned about it, there is no question. It has a big impact. I never stayed long enough to get a pension anyplace, so I don't have the problem.

Mr. WOLF. I guess I am trying to get you to say what you already have. I appreciate that——

Mr. HOYER. None of us are going to cry on this side of the table, however. [Laughter.]

Mr. CASEY. I wasn't looking for that.

Mr. WOLF. It looks like every place you have been you had a good record. You are really doing a fine job so I am sure they must have appreciated it and given you some remuneration when you left. You feel, then, that it would definitely have a negative impact?

Mr. CASEY. Absolutely. You have put your finger on a very sensitive spot. We are very concerned about it.

Mr. WOLF. Let the record show that.

Mr. CASEY. We will get you the exact numbers.

[The information follows:]

TAX ON RETIREMENT ANNUITY

If legislation is enacted to make retirement benefits immediately taxable, we anticipate that there would be a surge in the number of postal employees electing to retire prior to the effective date of such legislation. While the exact number of em-

ployees who would actually elect to retire is unknown, we are aware that many employees are talking about it. A survey of the postal workforce reveals that approximately 8% of the total workforce, including 20% of senior management employees, is currently eligible to retire. Senior field managers, such as Management Sectional Center managers at 35% and District managers at 45%, have much higher eligibility levels.

PORNOGRAPHY

Mr. WOLF. The second thing is this. Sir, I don't want to put you on record unless you want to be on record on this one, but this is really a sensitive issue. Last year, the man who had your job before; I asked him the same question. There is a lot of pornography that comes into the United States from certain European countries, and it comes into the U.S. district that represents the airport, Kennedy Airport up in New York.

Under current law the U.S. attorney for that district brings the cases, brings the suit. A lot of it is child pornography, really bad stuff. He is so busy, the U.S. Attorney for the Eastern District is so busy with organized crime, with white collar crime and with so many other things, that they have not really brought that many cases. As you know, mere possession of child pornography in itself is a fact of the crime, because it is a picture of a crime that has taken place. So the mere possession is illegal.

There was an arrangement that the Customs had worked out with the Post Office whereby they shipped this material down to the Eastern District of North Carolina.

Mr. CASEY. Yes.

Mr. WOLF. And they were getting cases brought and convictions. The Postal Service—and I understand their position—felt that that was a little unusual to do. Your people—and I give your people credit—helped draft a bill which says this. That the U.S. attorney in the district where the letter or material is addressed would have the authority to bring the case. That is, if it is coming into New York and it is addressed to Buffalo or Des Moines or something like that, the U.S. attorney in that district where the person who is to receive it would then bring the case. Would you support that as the Postal Service has in the past?

Mr. CASEY. It sounds reasonable. Lou?

Mr. COX. Absolutely, Mr. Congressman. Absolutely.

Mr. WOLF. If we could get a letter from you to that effect, because your credibility on this issue is important. And I want to commend the Postal Service. You guys have done a good job.

Mr. COX. It is a pleasure working with you. You bet, we are all for that legislation.

Mr. WOLF. If we could get a letter—

Mr. CASEY. You owe them a letter.

Mr. WOLF. —stating that, I would really appreciate it.

Mr. CASEY. Of course.

Mr. COX. We would be delighted.

Mr. WOLF. We almost passed it last year, but one Senator over on the other side raised an objection and I think there were some concerns with the Postal Service. I think this year we want to raise their comfort level and show them that everyone is for it.

Mr. Cox. I wasn't even aware of the objections. Maybe somewhere along the line we can have some communications about that.

Mr. WOLF. We put it in the C.R. I don't know what the rules of the Senate are on these things, but they bumped it out.

Let me just not ask any more questions. Then if I can submit one or two more questions just in writing, Mr. Chairman—

Mr. ROYBAL. Without objection, that will be ordered.

Mr. WOLF. Mr. Casey, I want to thank you, and if I can help you, work with you, let me know. I represent this district in northern Virginia and a lot of your top people live in my district.

Mr. CASEY. Good.

Mr. WOLF. A couple of your people live out there, and if we can work with you out there we would like to.

Mr. CASEY. You are very kind.

Mr. WOLF. I see you are going down to Texas later on.

Mr. CASEY. But not today.

Mr. WOLF. I mean sometime later this year.

Mr. CASEY. Oh, yes, around Labor Day, to teach.

Mr. SKEEN. In economics.

Mr. CASEY. Yes.

Mr. SKEEN. Where are you teaching?

Mr. CASEY. SMU. They have a great football team.

Mr. SKEEN. As a graduate of Texas A&M, we are very fond of the Southwest Conference, even SMU.

Mr. Chairman, I would like to ask unanimous consent. This is a statement and a few questions from Congressman Eldon Rudd, a former Member of this body, to the Postmaster General, regarding election day irregularity, handling some mailing fees.

Mr. ROYBAL. Without objection it will be submitted.

Mr. SKEEN. And this is for the record. I thank the chairman.

[The information follows:]

TAMPERING WITH POLITICAL MAILINGS

Mr. RUDD. Mr. Postmaster General, in a recent local election, of the Phoenix City Council, several candidate's mailings were delivered after the election was held.

Even though these candidates were reimbursed financially, it is impossible to know the extent to which this delayed mail impacted this particular election.

While the Chief Postal Inspector responded to my formal written inquiry in behalf of these candidates with an explanation of each complaint and an indication that an investigation into this matter did not disclose any conspiracy to delay the mail, there was no explanation provided as to what steps would be taken to prevent a situation like this from reoccurring and there were no procedures given in reference to the methods of investigation.

It is in light of these concerns and the serious implications of Postal Service employees tampering with political mailings that I place before you the following questions:

What procedures are currently in place to ensure that there is no tampering with the political mail of any candidate prior to an election?

Mr. CASEY. The Postal Service utilizes a number of programs and procedures to protect against unlawful tampering or delay of the mails, including political mailings made incident to an election. These procedures include the following:

1. Establishment and enforcement of employment hiring standards to ensure the integrity of the postal work force.

2. Active enforcement of the Postal Code of Ethical Conduct that requires uniform standards of behavior for all postal employees.

3. Highly structured orientation and training programs for all employees that stress compliance with postal laws and regulations.

4. Customer Complaint Programs designed to address customer complaints, identify service inefficiency, and disclose violations of postal laws and regulations.

5. Expedient investigations by the Postal Inspection Service of all allegations involving delays or tampering with the mails.

6. Close supervision of all mail processing activities, including collection, distribution, and delivery services.

7. Random mail counts and surveys by postal supervisors to determine service efficiency and reliability.

8. Establishment and use of Political Mailing Coordinators at regional, district, and local postal facility offices. The coordinators are responsible for maintaining liaison with all qualified political committees to ensure that political mailings are properly processed and delivered in an equitable manner, and that accurate records are maintained of such mailings.

Mr. RUDD. What methods of investigation were used to disclose that there was no conspiracy to delay the mail or to show favoritism toward any political party in the Phoenix City Council election?

Mr. CASEY. An investigation by the Postal Inspection service disclosed no evidence to support allegations of intentional or unlawful delay of political mailings in this case. Conversely, available facts indicate that small portions of mailings of candidates representing both major political parties were delayed (i.e., Judy Mack vs. Bill Parks). Investigative reviews of all complaints received and examination of relevant postal records in conjunction with interviews of responsible postal managers provided no indication of unlawful delay.

Mr. RUDD. What safeguards have been implemented to prevent a Postal employee from impeding delivery of political mailings?

Mr. CASEY. While it must be recognized that there is no absolute safeguard to preclude the possibility of postal employees intentionally delaying or obstructing delivery of political mailings, the programs, procedures, laws, and regulations detailed in the aforementioned paragraphs have for the most part, proved to be effective deterrents.

Mr. RUDD. What legal means are available to those who feel their political mailings have been tampered with, and what criminal penalities are in place should a Postal employee be found guilty of impeding the mailing process?

Mr. CASEY. All mails, including political mailings, are protected by a group of laws codified under Title 18, United States Code. Section 1703 specifically makes it a violation of federal law for any postal employee to unlawfully delay mail. The statute provides fines for violations not to exceed $500, or imprisonment not to exceed five years or both. Additionally, administrative action can be taken against employees for violations of the Postal Code of Ethical Conduct, which can result in removal from employment. Recourse for the complainant also includes full refunding of postage paid.

## RURAL AND 6-DAY MAIL DELIVERY

Mr. ROYBAL. Are there any other questions?

Mr. Casey, I have two questions. One is a repetition of what has already been asked. I want to be sure it gets in the record properly.

Mr. CASEY. Certainly.

Mr. ROYBAL. The question was, is it the firm intention of the Postal Service to continue rural delivery and six-day delivery at the present level in fiscal year 1986? I think your answer was that, yes, you will continue six-day delivery?

Mr. CASEY. Right, and we will still have to look on a case-by-case basis at the rural delivery question.

Mr. ROYBAL. What does that mean, Mr. Casey, that some will be——

Mr. CASEY. I can't say that there wouldn't be any routes dropped. I just couldn't make that commitment.

Mr. ROYBAL. You may, after you look at it, decide that rural delivery in some areas will be discontinued?

Mr. CASEY. No. We believe and we are committed to the universality of service. That is in the law, and we all ascribe to it very heartily.

Mr. ROYBAL. That is the case and you will continue rural delivery?

Mr. CASEY. I can't promise you that every single route will stay alive. That is all I am saying. I am committed to rural delivery as a subject matter, of course, but for goodness sake, we are opening more routes than we are closing.

Mr. ROYBAL. I would like to ask whether or not you are going to continue those routes that you now have without opening new ones, or you are going to discontinue some routes but then add some, so that you do continue a rural delivery system?

Mr. CASEY. We will have a rural delivery system. There will be a twitch here and there from time to time, that's just in the nature of the beast.

Mr. ROYBAL. As long as we know that the fact is that you will continue the rural delivery system.

### FINANCIAL CONDITION OF POSTAL SERVICE

The next thing I would like to know is what is the overall financial condition of the Postal Service.

Mr. CASEY. We are in pretty good shape right now. What we need is to embark on a very major investment—a couple of billion dollars' worth—in facilities, and maybe another couple of billion dollars in automation—optical scanning, and letter sorting equipment. All our money, the vast majority of the money, is spent in two areas. One is in the sortation of mail and one is in the delivery. It is tough to do too much about delivery, because people go out and they have to walk the route. They don't have to go to every house every day except on Social Security day, and we are putting in cluster boxes, and we are doing other things to try to help them on delivery. There is big movement that can be made in the sortation area.

Mr. ROYBAL. Can all this be accomplished through the efficiency that will come about with the new equipment?

Mr. CASEY. If you can get me out of the unified budget and get me away from the Treasury for borrowing—and that would help the present subsidy program—I will go out into the market and abroad and raise the money to equip the Postal Service.

### RATE INCREASE

Mr. ROYBAL. If you were to do that, then it wouldn't be necessary to increase the cost of postage stamps, would it?

Mr. CASEY. I hope not.

Mr. ROYBAL. But since we are not doing that immediately, what are the prospects for an increase in the price of the first-class stamp?

Mr. CASEY. I have to go back to Congressman Hoyer's comments there. If we were saddled with the pension proposals, the health benefit proposal and those kinds of expenses, a couple of billion dollars worth, the price of a stamp would have to go up. There is no question about it. We have $29 billion in expenses, and if I get sad-

dled with over $2 billion overnight and I can't even get a postal rate increase for 18 months to two years, there is just no way I could absorb the additional expenses. I would go into the red.

Mr. ROYBAL. What was the increase in rates this last time? It was 20 cents and increased to 22, wasn't it?

Mr. CUMMINGS. Ten percent for the First class rate, 9 percent overall.

Mr. ROYBAL. If an additional increase is to be made, would it be in the neighborhood of 10 percent?

Mr. CASEY. I really don't know.

Mr. ROYBAL. You don't know?

Mr. CASEY. It would depend on what would happen to our costs.

Mr. ROYBAL. Don't you have that matter under study?

Mr. CASEY. The costs that the President or the Congress wish on us?

Mr. ROYBAL. You are not talking about the cost of operation?

Mr. CASEY. No, we can handle the cost of operation.

Mr. ROYBAL. You are talking about additional costs?

Mr. CASEY. Right.

Mr. ROYBAL. Unforeseen costs that may be just thrust upon you?

Mr. CASEY. Sure.

Mr. ROYBAL. If something like that were to happen, then you would have to make adjustments?

Mr. CASEY. Yes.

Mr. ROYBAL. And those adjustments would come about by increasing the postage rate?

Mr. CASEY. We should fund our pension plan in the years ahead, but we have to be phased into it. These are costs that we should take on as a separate commercial entity. I really believe that.

### EXPRESS MAIL

Mr. ROYBAL. One other thing as a matter of curiosity. How are you doing with your special express mail; is that paying off?

Mr. CASEY. Well, I really don't have the figures. Do we break even on that?

Mr. COX. Oh, yes, it pays off. It makes a contribution to overhead that is more than most kinds of mail.

Mr. ROYBAL. You do make a profit?

Mr. CASEY. We are losing volume.

Mr. COX. I guess you could say it contributes to what we call institutional costs, the general overhead costs, quite substantially.

Mr. CASEY. You cover your variable costs.

Mr. COX. Yes.

Mr. CASEY. Your share of institutional costs?

Mr. COX. The markup, as we call it, is very high.

Mr. ROYBAL. I have had two of my staff people on the same day use the express mail, one from one committee, the other coming from a different committee. On one occasion I got the mail the following day. The other mailing that went out at the same time. I got a week later. I tried to find out why it took a week to get to Los Angeles, since Los Angeles is not really that far in flying time and it is on a direct line to Washington.

Mr. CASEY. No.

Mr. ROYBAL. If you take a direct plane.

Mr. CASEY. There is a lot of service there, you are right.

Mr. ROYBAL. What do you think happened, or happens, to these pieces of mail that take so long?

Mr. CASEY. I don't really know, but obviously we have got to improve the service. Federal Express, UPS, Purolator, they are performing better than we are right now in that area. What we probably have to do is pick up the mail earlier than we have been picking it up.

Mr. ROYBAL. You are not going to stand by, are you, Mr. Casey—I know you won't—and let Federal Express beat you?

Mr. CASEY. No way. No way at all.

Mr. ROYBAL. That is all I wanted to know, because we don't want those fellows to beat you out.

Mr. CASEY. There are a lot of people that want Federal Express to beat us out, and to turn this business over to the private sector. The Miller syndrome.

Mr. ROYBAL. I am glad you are in the saddle now and won't permit them to do it, that means, then, that we will be getting our mail the next day.

Mr. CASEY. You should. Otherwise we can't be in that business unless we perform on standard.

Mr. SKEEN. It is a little ironic, though, when UPS has to go by the local post office to get directions on where to deliver it.

### PRIVATIZATION

Mr. HOYER. General, the Miller syndrome, as you referred to it, I presume is the syndrome of privatization, which says everything can be done better in the private sector than by government, except some very essential functions. You obviously have worked in the private sector. Do you believe, that with respect to this particular service that you are running, that that is not the case?

Mr. CASEY. I think there are areas that they can do better. They are not saddled with our restrictions or our price levels, cost levels. I believe in more contracting out. I just don't believe in giving up the universality of the service. They can skim the heavy markets, and we will lose the financial viability to provide service to the rural districts and the universality.

Mr. HOYER. Thank you, Mr. Chairman.

### SUBCOMMITTEE TRIP TO HAWAII

Mr. AKAKA. I want to take this opportunity to thank Chairman Roybal and Congressmen Skeen and Coleman for taking the time to travel to Hawaii this January to take a first-hand look at some of the unique problems we experience in Hawaii. I'm only sorry that the rest of my colleagues on the subcommittee could not join us for the trip. One of the highlights of our trip was a briefing and demonstration of detecting drugs in the mails at the Hilo postal facility. One of the most challenging enforcement problems that the Postal Service faces today is its fight against shipments of drugs in the mails. From what we saw in Hawaii, its clear that if all the agencies which participate in the South Florida Task Force were cooperating with each other as closely as they are in Hawaii, we would have the South Florida problem licked.

It is clear that Operation Pele and Pele II have been successful. Please describe for the subcommittee whether you are experiencing the kind of problem with drugs in the mails elsewhere in the U.S. that you are experiencing in Hawaii?

Mr. CASEY. The extent of the problems in Hawaii were greatly reduced as a result of Operation Pele and Pele II. On occasion, we conduct drug investigations in different parts of the United States, but we have no indications of major problems similar to past problems in Hawaii.

Mr. AKAKA. Efforts to control drug traffic have been likened to squeezing a balloon with your hand—as you apply pressure in one area, the problem pops out somewhere else. Your efforts in Hawaii have primarily focused on the Big Island. Please tell the subcommittee the extent to which you find that your successful efforts on the Big Island have caused resulted in increased volumes of drug containing packages at Post Offices on other islands?

Mr. CASEY. Although Pele I concentrated its efforts on the Big Islands, subsequent investigations were conducted on other islands. To the extent that illegal activity was disclosed, there was no evidence that it had been "transferred" from another location.

GRAMM-RUDMAN-SEQUESTRATION

Mr. AKAKA. The Gramm-Rudman sequestration order has reduced the funds appropriated by Congress for revenue forgone by $32.1 million in FY 1986. What actions will you be required to initiate as a result of this sequestration of the revenue forgone account? Will you be forced to raise rates for any or all of the revenue forgone mail classes?

Mr. CASEY. The Postal Service will implement increased preferred rates on March 9. The higher rates are designed to recover both the original $65 million shortfall in FY 1986 revenue forgone appropriations plus the $32 million reduction due to implementation of the Gramm-Rudmann-Hollings legislation. Except for free mail categories which will remain free, rates for all preferred categories will change. Illustrative examples of the new rates are provided on the attached charts.

Mr. AKAKA. I notice that on page 2 of part II of your budget justification where you describe the impact of Gramm-Rudman on the activities of the Postal Service, you state that:

"The Administration has also proposed a $50.908 million reduction to Fiscal Year 1986 "administrative expenses." The Postal Service does not agree that P.L. 99-177 authorizes inclusion of amounts from the Postal Service Fund in a sequestration order. . ."

What is the nature of this dispute with over the sequestration of administrative expenses and what it the Postal Service doing to win a favorable interpretation on this issue?

Mr. CASEY. This matter involves a difference of opinion about the interrelation among several provisions of the Gramm-Rudman-Hollings law and between that law and the Postal Reorganization Act. It also involves a perception, which we find is increasingly shared, that inclusion of amounts from the Postal Service Fund in a sequester order would not reduce the Federal deficit because economies within the postal system reduce postal revenue needs. Movement toward a balanced Federal budget by 1991 is undermined when credit toward intermediate outlay targets is claimed for internal Postal Service savings which will be distributed to postal ratepayers. We have initiated discussions with the Office of Management and Budget and with the postal legislative committees to try to find more appropriate ways to reflect the Postal Service budget to avoid distorting the Federal deficit reduction effort.

Mr. AKAKA. From the budget notes on this matter, it appears that the Postal Service has aquiesced on this issue. Don't you have a responsibility to postal ratepayers to aggressively pursue your interpretation that the administration cannot sequester this administrative account?

Mr. CASEY. The Postal Service has stated that the financial results reflected in the Postal Service Fund will be improved by at least $50,908,000, the total amount mentioned in connection with the sequester order, in Fiscal Year 1986. Under the Postal Reorganization Act, the Postal Service has a continuing responsibility to find ways to increase its efficiency and productivity in order to maintain reasonable rates of postage. The postal ratepayers benefit from the savings achieved.

Mr. AKAKA. Provide for the record a detailed statement of your legal interpretation of this dispute.

Mr. CASEY. The Postal Reorganization Act, which is intended as a complete and coherent statement of the laws governing the Postal Service Fund, provides that no other laws concerning federal budgets or funds apply except as specifically provided in title 39, United States Code (39 U.S.C. 410(a)). Within the Gramm-Rudman-Hollings law itself, section 255(g)(1) specifically exempts the Postal Service Fund from

coverage under a sequester order, and the provision dealing with administrative expenses, section 256(b)(2), expresses an apparent recognition that some self-supporting accounts are exempt.

REVENUE FORGONE

Mr. AKAKA. In our statement (page 2), you state that $833,221,000 will be required in FY 1987 to maintain free and reduced mail rates at their current level through the revenue forgone program. However, the administration has requested no money for the revenue forgone account. What will be the adverse effects of the administration's proposal on other classes of mail and on the Postal Service in general?

Mr. CASEY. If the President's proposal is enacted several things will happen, preferred rates will be set at attributable cost levels. No cost reduction will be achieved if the recommendation is enacted. However, a revenue shortfall will occur equal to the revenue forgone requirement. Eventually, the revenue shortfall will cause higher rate levels for regular mailers.

Under the present rate process as mandated by Congress, higher postage rates to offset the appropriation loss could not practically be implemented until eighteen months after the enactment of new legislation. In the meantime, the $833 million FY 1987 appropriation requirement and half the projected $868 million appropriation for FY 1988 would be lost without compensating rate adjustments. Consequently, over the 18-month period, the Postal Service would lose $1.3 billion in revenues under the recommendation. The precise impact of the loss of the appropriation can not be determined since it would be combined with other factors to determine the necessary rates. However, as a general rule, losses of the magnitude associated with revenue forgone could require a one-cent increase in the First-Class postage rate and increases in other rates.

OPERATING DEFICIT

Mr. AKAKA. In a February 14 letter to the Post Office and Civil Service Committee, you stated that your net operating deficit for FY 1987 will be $440 million. What steps are you taking to reduce or eliminate this operating deficit? Do you believe this deficit can be eliminated this year?

Mr. CASEY. The Postal Service is trying to achieve efficiencies and savings in a number of areas. Some of the matters receiving a close look include more effective use of automation, improved supervision, better control of administrative overhead costs, more efficient processing methodologies, and improved transportation scheduling.

COMMEMORATIVE STAMPS

Mr. AKAKA. There is strong interest in establishing a postage stamp to commemorate the sequicentennial of the introduction of music in our schools. What are you doing to satisfy this interest?

Mr. CASEY. Thousands of requests for new stamps are received annually. Of course, only a limited number can be issued each year. For this reason, the Citizens' Stamp Advisory Committee has been established to review all suggestions and to make recommendations for future stamps based on national interest, historical perspective, and other criteria.

Several suggestions have been received requesting that a postage stamp be issued to commemorate the sequicentennial of the introduction of music in our schools. These proposals have been brought to the attention of the Committee and will be given consideration at a future meeting. I should point out that, at the present time, the Committee has completed work on the 1986 stamp program and is considering proposals for subsequent years. Be assured this proposal will be given every consideration.

IN-COUNTY, SECOND-CLASS RATE

Mr. WOLFE. What is the status of the proposal to remove the second class subsidy for in-county newspapers on subscribers over 20,00 circulation?

Mr. CASEY. The proposal to limit applicability of in-county rates to 20,000 copies of any issues was excluded from the in-county restrictions enacted in Public Law 99-190. However, the Conference Agreement which excluded the 20,000 copy limit noted that the proposal would be a subject of a study to be conducted by the Postal Rate Commission. Subsequently, the Postal Rate Commission was requested to perform a study of revenue forgone appropriations and preferred rate eligibility by Congressman Ford and Senator Stevens. The proposal is one of the items being ex-

amined by the Commission. Their final report and recommendations are scheduled to be issued on June 1.

Mr. WOLF. Are there any publications in the United States, besides the Journal newspapers in the Washington metropolitan area, affected by this provision?

Mr. CASEY. The normal Postal Service information systems do not collect and stratify data by size of in-county mailings. Consequently, no data is available regarding the number of publications who would be affected by the proposal to limit in-county rates to 20,000 copies per issue. However, it appears likely that only a small percentage of the publications using in-county rates under the current restrictions will be affected.

Mr. WOLF. What kind of revenue is expected to be raised from this initiative?

Mr. CASEY. A study being conducted by the Postal Rate Commission is expected to provide sufficient information to determine the revenue gain and subsidy reduction resulting from enactment of the proposal. However, as described in the previous answer, existing information systems do not offer the level of detail to estimate the impact of the proposal at present.

Mr. WOLF. Does the USPS have an official position on this issue? Would implementation of this concept be difficult to administer?

Mr. CASEY. The position of the Postal Service is that decisions pertaining to reduced rates for certain organizations, businesses, and individuals is a matter of social policy to be determined by Congress. Any additional criteria for determining preferred rate eligibility adds to the existing complexity in the administration of preferred rates. However, this provision would be relatively easy to administer compared to the in-county regulations recently implemented.

### REMAIL REGULATION

Mr. WOLF. As you know, I have sent several letters over the past couple of months as to the status of the USPS proposed regulations which would, in effect, eliminate the small remail industry. What is the status of this regulation and what do you think we can expect in the future on this matter? If the Postal Service pulls these regulations back, will some sort of public statement be issued for the benefit of the remailers whose clients are becoming reluctant to use their services to indicate that this activity is permissible and not illegal?

Mr. CASEY. At the Board of Governors meeting on March 4, 1986, Chairman McKean stated the Board's belief that remail services advance consumer welfare and at the same time foster innovation and economic efficiency. He announced that the Postal Service will soon initiate a rulemaking proceeding to remove the legal cloud over the international remail services and to preserve the desirable competition between the Postal Service and private companies.

## PREFERRED PRICE LEVELS AND PERCENTAGE INCREASES

[Fiscal year 1986 illustrative examples] [1]

| | Current prices (cents) [2] | Mar. 9 to Sept. 30 | |
|---|---|---|---|
| | | Prices [3] | Percentage increases |
| 2d-class publications: | | | |
| In county | 6.3 | 7.3 | 16 |
| Nonprofit | 8.2 | 8.8 | 7 |
| Classroom | 11.2 | 13.4 | 20 |
| Limited circulation | 9.3 | 9.9 | 6 |
| Science of agriculture | 10.8 | 11.0 | 2 |
| 3d-class nonprofit: | | | |
| Carrier route presort | 4.8 | 5.7 | 19 |
| Presort to 5 digits | 6.3 | 7.2 | 14 |
| Required presort | 7.4 | 8.7 | 18 |
| 4th-class library rate | 67 | 74 | 10 |

[1] See next page for "illustrative examples."
[2] Step 16 prices.
[3] Prices are between step 16 and regular (commercial) levels.

DESCRIPTION OF ILLUSTRATIVE PREFERRED RATE EXAMPLES

SECOND-CLASS PUBLICATION

In-County: Rural Newspaper—Frequency, Weekly; Weight, 4 ounces; Advertising, 50 percent; All Delivered In County; Presorted to 5 Digits.

Nonprofit: Veteran's Magazine—Frequency, Monthly; Weight, 4 ounces; Advertising, 20 percent; New York to Chicago; Presorted to 5 Digits.

Classroom: Classroom Publications—Frequency, Weekly; Weight, 12 ounces; Advertising, 15 percent; New York to Chicago; 32 copies per piece.

Science of Agriculture: Rural Agricultural Newspaper—Frequency, Weekly; Weight, 4 ounces; Advertising, 50 percent; Within 150 miles of entry; Presorted to 5 Digits.

Under 5,000 Copies: Newspaper—Frequency, Weekly; Weight, 4 ounces; Advertising, 50 percent; Within 150 miles of entry; Presorted to 5 Digits.

THIRD-CLASS NONPROFIT

Fund-Raising Letter—Weight, ¾ ounce; Nationwide Distribution; Carrier Route, Presort; Presorted to 5 Digits; Required Presort.

FOURTH-CLASS

Book Between Libraries—Weight; 2 pounds; New York to Chicago.

Mr. ROYBAL. Mr. Casey, I would like to thank you and your colleagues for your presentation this morning.

Mr. CASEY. It is very nice to see you.

Mr. ROYBAL. We wish you every success during the few months that you will be with us, and then when you get to that university in Texas, I hope you will be very happy there.

Mr. CASEY. You are very kind.

Mr. ROYBAL. The committee is adjourned.

[The justification follows:]

FISCAL YEAR 1987 BUDGET

CONGRESSIONAL SUBMISSION

DEPARTMENT OF THE
CONTROLLER
OFFICE OF BUDGET
AND COST

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# U. S. POSTAL SERVICE

## PART 1

## APPROPRIATION REQUEST

## FY 1987

U.S. POSTAL SERVICE
Appropriations

The following schedules reflect the Postal Service's budget for Fiscal Year 1987 as submitted to the Office of Management and Budget without revision. Funding requested reflects the amounts authorized in Title 39 §2401 and §2004.

Revenue Forgone

The Postal Service is requesting funding in Fiscal Year 1987 for revenue forgone on free and reduced-rate mail consistent with 39 U.S.C. 2401(c); however, the Administration has proposed that all funding on free and reduced-rate mail be eliminated beginning in Fiscal Year 1987.

Transitional Costs

Funds are requested to fund compensation paid to postal employees for injuries that occurred prior to July 1, 1971, while employed by the Post Office Department, and which remain liabilities of the U.S. Government pursuant to 39 U.S.C. 2004.

Public Service Costs

For public service costs, Title 39 §2401(b)(1)(G) authorized, for years after Fiscal Year 1984, an amount equal to 5 percent of the Post Office Department Fiscal Year 1971 appropriation. Also, Section 2401(b)(2) authorizes the Postal Service to reduce such percentage, including a reduction to zero. For Fiscal Year 1987, the amount authorized under Section 2401(b)(1)(G) is $460,000,000; however, since the Postal Service has operated successfully without this appropriation for four years, the Postal Service is requesting no appropriation for public service costs during Fiscal Year 1987.

The following schedule provides a summary and reconciliation of the appropriations requested and recommended level of funding.

U.S. POSTAL SERVICE
Appropriations
(in thousands of dollars)

| | Public Service Costs | Revenue Forgone | POD Transitional Costs | Total |
|---|---|---|---|---|
| FY 1985: | | | | |
| USPS request | ... | 730,703 | 239,509 | 970,212 |
| President's recommendation | ... | 452,047 | 239,509 | 691,556 |
| Continuing Resolution, P.L. 98-473 | ... | 801,000 | 239,509 | 1,040,509 |
| Supplemental Appropriation, P.L. 99-88 | ... | 168,620 | ... | 168,620 |
| Total received in FY 1985 | ... | 969,620 | 239,509 | 1,209,129 |
| FY 1986: | | | | |
| USPS request | ... | 980,993 | 39,128 | 1,020,121 |
| President's recommendation | ... | ... | 39,128 | 39,128 |
| Continuing Resolution, 99-190 | ... | 748,000 | ... | 748,000 |
| Impact of the Balanced Budget and Emergency Control Act of 1985, P.L. 99-177 | ... | -32,164 | ... | -32,164 |
| FY 1987: | | | | |
| USPS request | ... | 833,211 | 40,049 | 873,260 |
| President's recommendation | ... | ... | 40,049 | 40,049 |

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U.S. POSTAL SERVICE
Appropriations Summary
(in thousands of dollars)

| | FY 1985 Appropriations | FY 1986 Request | FY 1986 President Recommended | FY 1986 Continuing Resolution P.L. 99-190 | FY 1987 Request | FY 1987 President Recommended |
|---|---|---|---|---|---|---|
| A. Total budget authority (appropriation) ..... | 1,209,129 | 1,020,121 | 39,128 | 748,000 | 873,260 | 40,049 |
| B. Program by Activities: | | | | | | |
| 1. Public service costs ..... | ... | ... | ... | ... | ... | ... |
| 2. Free and reduced-rate mail (revenue forgone) ..... | 969,620 | 980,993 | ... | 748,000 | 833,211 | ... |
| 3. Non-funded liabilities of the former POD ..... | 239,509 | 39,128 | 39,128 | ... | 40,049 | 40,049 |
| Total appropriations ..... | 1,209,129 | 1,020,121 | 39,128 | 748,000 | 873,260 | 40,049 |
| Impact of Balanced Budget and Emergency Deficit Control Act of 1985 | ... | ... | ... | -32,164 | ... | ... |

U.S. POSTAL SERVICE
Federal Funds

General and special funds:

Payment to the Postal Service Fund

For payment to the Postal Service Fund for meeting the liabilities of the former Post Office Department to the Employee's Compensation Fund, $40,049,000.

NOTE: A regular Fiscal Year 1986 appropriation for this account had not been enacted at the time this budget was prepared. A continuing resolution (Public Law 99-190) provides funds through September 30, 1986.

Program and Financing
(in thousands of dollars)

| | FY 1985 Actual | FY 1986 Estimate | FY 1987 Estimate | |
|---|---|---|---|---|
| | | | USPS Request | OMB Proposal |
| Program by activities: | | | | |
| Payment to the Postal Service Fund for: | | | | |
| Free and reduced-rate mail | 917,573 | 782,499 | 774,235 | ... |
| Reconciliation adjustment - free and reduced-rate mail | 52,047 | -34,499 | 58,976 | ... |
| Sub-total, free and reduced-rate mail | 969,620 | 748,000 | 833,211 | ... |
| Previous non-funded liabilities of the POD | 239,509 | ... | 40,049 | 40,049 |
| Total payments to the Postal Service Fund (cost-obligations)(object class 41.0) | 1,209,129 | 748,000 | 873,260 | 40,049 |
| Financing: | | | | |
| Budget authority (appropriation) | 1,209,129 | 748,000 | 873,260 | 40,049 |

U.S. POSTAL SERVICE
Federal Funds
Program and Financing Cont'd
(in thousands of dollars)

| | FY 1985 Actual | FY 1986 Estimate | FY 1987 Estimate | |
|---|---|---|---|---|
| | | | USPS Request | OMB Proposal |
| Relations of obligations to outlays: | | | | |
| Obligations incurred, net | 1,209,129 | 748,000 | 873,260 | 40,049 |
| Adjustments in expired accounts | 428 | ... | ... | ... |
| Outlays | 1,209,557 | 748,000 | 873,260 | 40,049 |
| Impact of the Balanced Budget and Emergency Deficit Control Act of 1985: | | | | |
| Payments to the Postal Service Fund (total obligations) | ... | -32,164 | ... | ... |
| Budget authority | ... | -32,164 | ... | ... |
| Obligations incurred-net | ... | -32,164 | ... | ... |
| Outlays | ... | -32,164 | ... | ... |

This appropriatior of $873,260 thousand is for the purpose of reimbursing the Postal Service for $40,049 thousand of previously unfunded liabilities of the former Post Office Department and $833,211 thousand for loss in revenue associated with carrying certain categories of mail at free and reduced rates. The $40,049 thousand provides funds to cover payment to the employees' compensation fund for injuries prior to July 1, 1971. Under the Postal Reorganization Act, the remaining liabilities of the former Post Office Department are intended to remain the responsibility of the United States, and not to fall on present-day ratepayers who must pay the full cost of present-day operations.

The following table represents the estimated revenue forgone by the Postal Service in Fiscal Year 1987 for carrying certain categories of mail at free and reduced rates.

APPROPRIATIONS
Justifications

Estimated Revenue Forgone Appropriations, FY 1987
(in thousands of dollars)

| Class of Service | Phasing Appropriations | Continuing Appropriations | Total Revenue Forgone |
|---|---|---|---|
| Second-Class: | | | |
| In-county | ... | 70,180 | 70,180 |
| Nonprofit | ... | 52,753 | 52,753 |
| Classroom | ... | 1,734 | 1,734 |
| Regular-rate | ... | 18,602 | 18,602 |
| Total | ... | 143,269 | 143,269 |
| Third-Class: | | | |
| Bulk nonprofit | ... | 580,191 | 580,191 |
| Fourth-Class: | | | |
| Library rate | ... | 22,249 | 22,249 |
| Free for blind, etc. | ... | 28,526 | 28,526 |
| Total | ... | 774,235 | 774,235 |
| Less Amount not Recommended by the President | | | -774,235 |
| Total - President's recommendation | | | -0- |

1. FY 1987 Appropriation Requested for Revenue Forgone $833,211,000.

(in thousands of dollars)

| ITEM | FY 1985 Amount | FY 1986 Amount | FY 1986 Change Over Prior Year | FY 1987 Amount | FY 1987 Change Over Prior Year |
|---|---|---|---|---|---|
| a. Continuing appropriation... | 718,162 | 711,861 | -6,301 | 774,235 | 62,374 |
| b. Phasing appropriation..... | 199,411 | 70,638 | -128,773 | -0- | -70,638 |
| Subtotal..... | 917,573 | 782,499 | -135,074 | 774,235 | -8,264 |
| c. Reconciliation adjustment.. | 52,047 | -34,499 | -86,546 | 58,976 | 93,475 |
| Total Revenue Forgone | 969,620 | 748,000 | -221,620 | 833,211 | 85,211 |

An appropriation of $833,211,000 is requested in Fiscal Year 1987 for revenue forgone on free and reduced-rate mail which enables postage rates to be set below the regular rates determined through postal rate preceedings for certain second-class, third-class and fourth-class mail. Funds are requested to provide continuance of reduced rates for certain preferred rate mail as authorized by Title 39 §3626, as amended.

a. FY 1987 Continuing Appropriation Requested, $774,235,000.
The continuing appropriation requested will provide funding of the difference between full unphased rates charged to preferential rate mailers (including non-profit organizations, matter for the blind and other visually handicapped persons as defined in 39 U.S.C. 3403 - 3404) and the rates they would pay if they were regular commercial mailers. Funds for this appropriation request are authorized by 39 U.S.C. 2401(c).

b. FY 1987 Phasing Appropriation Requested, $-0-.
Assuming that Step 16 of the phased rate schedule or higher preferred rates will be in effect throughout Fiscal Year 1986, no phasing appropriations would be required.

c. Reconciliation Adjustment, Revenue Forgone, $58,976,000:

(in thousands of dollars)

| ITEM | FY 1985 Amount | FY 1986 Amount | FY 1986 Change Over Prior Year | FY 1987 Amount | FY 1987 Change Over Prior Year |
|---|---|---|---|---|---|
| (1) Continuing ..... | 62,398 | 16,460 | - 45,938 | 17,270 | 810 |
| (2) Phasing ..... | -10,351 | -50,959 | - 40,608 | 41,706 | 92,665 |
| Subtotal ..... | 52,047 | -34,499 | - 86,546 | 58,976 | 93,475 |

This request is based on 39 U.S.C. 2401(c) which authorizes appropriations each year to reimburse the Postal Service for the revenue forgone on free and reduced-rate mail. The amount of revenue forgone is the difference in revenues between what the Postal Service would have received at full unreduced rates and what it does receive as the rates are charged at the reduced statutory levels. The primary variable in calculating the amount of revenue forgone is the estimation of mail volume.

Audited mail volumes for Fiscal Year 1984, indicate that the appropriation received for free and reduced-rate mail was less than the subsidy actually received by the affected mailers. By providing funds for this shortfall, the objective established by Congress--to provide appropriations for certain classes of mail that enjoy free or reduced rates--will be met. The request for this reconciliation adjustment is required by the last sentence of 39 U.S.C. 2401(c).

The final amounts appropriated to the Postal Service for Fiscal Year 1984 were based on estimates that appropriations amounting to $717,168,000 would be required for free and reduced-rate mail. However, audited mail volumes indicate that $776,144,000 was actually required to fully reimburse the Postal Service for services provided - leaving a shortfall of $58,976,000.

The Postal Service, in accordance with the objectives established in the Postal Reorganization Act by the Congress, is therefore submitting a reconciliation adjustment of $58,976,000 to provide total reimbursement for services performed on free and reduced rate mail during Fiscal Year 1984.

(in thousands of dollars)

| Class of Service | Appropriation Indicated | Appropriation Received | Reconciliation Adjustment |
|---|---|---|---|
| Phasing appropriation | | | |
| Second-class | 42,627 | 47,851 | -5,224 |
| Third-class, bulk nonprofit | 74,622 | 52,041 | 22,581 |
| Fourth-class | 6,497 | 6,584 | -87 |
| Total Phasing Appropriation | 123,746 | 106,476 | 17,270 |
| Continuing appropriation | | | |
| Second-class | 91,060 | 108,535 | -17,475 |
| Third-class | 502,536 | 416,809 | 85,727 |
| Fourth-class, library rate | 29,780 | 34,893 | -5,113 |
| Free for the blind and qualified handicapped | 29,022 | 50,455 | -21,433 |
| Total Continuing Appropriation | 652,398 | 610,692 | 41,706 |
| Total Revenue Forgone | 776,144 | 717,168 | 58,976 |

Characteristics of Free and Reduced-Rate Mail

The eligible second-class mail categories are:

- Small circulation publications, in-county mailings, and for-profit agricultural periodicals.

- Publications issued by and in the interest of organizations and associations not organized for profit and none of the net income of which benefits any private stockholder or individual. Examples would be publications issued by religious, educational, philanthrophic, agricultural, labor, and veterans' organizations.

- Publications designed specifically for use in school classrooms or in religious instruction classes.

The eligible third-class category consists of:

- Bulk-rate mailings of authorized state and national political committees and by organizations or associations not organized for profit, none of the net income of which benefits any private stockholder or individual. Mailings must be separately addressed, and consist of not less than 200 pieces or 50 pounds.

Eligible fourth-class consists of:

- Books, films, printed music, bound volumes of academic theses, periodicals, sound recordings, etc., loaned or exchanged between schools, colleges, universities, or public libraries, shipments of books from a publisher or distributor to a school or university and shipments of other items by certain nonprofit organizations.

Free for the Blind, etc.:

- Matter for use by the blind or other persons who cannot use or read conventionally printed material because of physical impairment is mailable free of postage. In order to qualify, there must be no charge, rental, subscription or other fee required for such matter.

- Items mailable free by a qualifying person include unsealed letters, sound reproductions, braille writers or typewriters, and educational or other materials or devices specifically designed or adapted for use of a visually handicapped person.

- Absentee balloting materials mailable free by the Armed Forces and other U.S. Citizens residing for a definite or indefinite time outside the territorial limits of the United States, and between state and local election officials in bulk.

2. FY 1987 Appropriation Request for the nonfunded liabilities of the former Post Office Department, $40,048,639:

(in thousands of dollars)

| ITEM | FY 1985 Amount | FY 1986 Amount | FY 1986 Change Over Prior Year | FY 1987 Amount | FY 1987 Change Over Prior Year |
|---|---|---|---|---|---|
| a. Annual Leave Liability ..... | 76,421 | ... | -76,421 | ... | ... |
| b. Employees' Compensation Fund.. | 163,088 | ... | -163,088 | 40,049 | 40,049 |
| Total Post Office Department Liabilities ..... | 239,509 | ... | -239,509 | 40,049 | 40,049 |

Employees' Compensation Fund $40,048,639:

An annual amount is requested to fund compensation paid to postal employees for injuries which occurred prior to July 1, 1971, while employed by the Post Office Department, which remain liabilities of the U.S. Government. The Postal Service annually requests an appropriation to cover the amount billed by the Department of Labor for compensation payments made in the latest fiscal year. The amount appropriated is then reimbursed to the Department of Labor.

A schedule providing the number of cases and costs of compensation by fiscal year follows:

| Actual Year | Budget Year | Number Of Cases | Costs ($000) |
|---|---|---|---|
| 1972 | 1974 | 26,357 | 30,096 |
| 1973 | 1975 | 10,429 | 24,451 |
| 1974 | 1976 | 9,340 | 27,913 |
| 1975 | 1977 | 8,407 | 30,805 |
| 1976 | 1978 | 7,571 | 33,791 |
| 1977 | 1979 | 6,898 | 34,632 |
| 1978 | 1980 | 6,639 | 35,655 |
| 1979 | 1981 | 5,497 | 37,109 |
| 1980 | 1982 | 5,069 | 38,240 |
| 1981 | 1983 | 4,486 | 39,991 |
| 1982 | 1984 | 4,313 | 42,790 |
| 1983 | 1985 | 3,964 | 42,067 |
| 1984 | 1986 | 3,562 | 39,128 |
| 1985 | 1987 | 3,358 | 40,049 |



1/28/86

# U. S. POSTAL SERVICE

## PART II

## FINANCIAL STATEMENTS

## U.S. POSTAL SERVICE

The Postal Reorganization Act of 1970, Public Law 91-375, converted the Post Office Department into the U.S. Postal Service, an independent establishment within the executive branch. The Postal Service commenced operations July 1, 1971. This agency is charged with providing customers with reliable mail service at reasonable rates and fees.

The U.S. Postal Service is governed by an 11-member Board of Governors, including 9 Governors appointed by the President, a Postmaster General who is selected by the Governors, and a Deputy Postmaster General who is selected by the Governors and the Postmaster General.

Decisions on changes in domestic rates of postage and fees for postal services are recommended to the Governors of the Postal Service by the independent Postal Rate Commission after a hearing on the record under the Administrative Procedure Act. The Commission also recommends decisions on changes in the domestic mail classification schedule to the Governors. Decisions of the Governors on rates of postage, fees for postal services, and mail classification are final, subject to judicial review.

Programs - Included are all postal activities providing window services; processing, delivery, and transportation of mail; research and development; administration of postal field activities; and associated expenses of providing facilities and financing.

Financing - The activities of the U.S. Postal Service are financed from the following sources: (1) mail and services revenue, (2) reimbursements from Federal and non-Federal sources, (3) proceeds from borrowing, (4) interest from U.S. securities and other investments, and (5) appropriations by the Congress. All receipts and deposits are made to the Postal Service Fund and are available without fiscal year limitation for payment of all expenses incurred, retirement of obligations, investment in capital assets, and investment in obligations and securities.

Since 1973, transactions of the Postal Service Fund and the assets and liabilities of the U.S. Postal Service have not appeared within the totals of the U.S. budget, however, consistent with legislation to move other Federal entities on-budget, all of the Postal Service activities are included on-budget beginning in Fiscal Year 1986. The schedules presented here reflect summary data on postal operations.

## U.S. POSTAL SERVICE

Section 2005 of Title 39, United States Code, authorizes the Postal Service to borrow by issuing obligations which may not exceed $10 billion outstanding at any one time. In any one fiscal year, the net increase in amount outstanding may not exceed $1.5 billion in obligations issued for the purpose of capital improvements and $500 million for the purpose of defraying operating expenses. As of September 30, 1987, it is expected that the total debt instruments issued and outstanding pursuant to this authority will amount to $4.416 billion.

### Changes to be Proposed by the Administration

FY 1987 - Revenue Forgone - The Administration plans to propose legislation which would eliminate all revenue forgone appropriations after Fiscal Year 1986. Reconciliation adjustments would be eliminated also. Our understanding of the proposal is that rates for the following three types of preferred mail would be increased to regular rate (commerical) levels: (1) pieces sent by for-profit mailers, (2) advertising by nonprofit mailers above limit of content, and (3) third-class nonprofit political mailings. All other preferred rates would be set at step 5 levels which are designed to generate sufficient revenues to recover those costs which are directly attributable to preferred mail categories, yet provide no contribution to postal overhead. Consequently, to fulfill the break-even mandate of the Postal Reorganization Act, rates for other mailers would have to be increased to recover this unreimbursed portion of indirect costs.

FY 1987 - Retirement Costs - Legislation will be proposed by the Administration to increase the Postal Service's contribution for retirement beginning in Fiscal Year 1987 by 2% each year until the Postal Service is paying the full cost of benefits for its employees. In addition, the Postal Service will match additional employee retirement contributions which are proposed to increase by 2% in Fiscal Year 1987. These amounts would be in addition to the approximately $1.4 billion in annual payments required to liquidate the September 30, 1986 unfunded retirement liability. Legislation will also be proposed to require the Postal Service to pay the Government portion of health insurance costs for all postal annuitants. It is estimated that this proposal, if implemented, would result in additional costs of approximately $5.8 billion during Fiscal Years 1987-1991.

### Balanced Budget and Deficit Control Act of 1985 (P.L. 99-177)

The impact of P.L. 99-177 upon the Fiscal Year 1986 revenue forgone appropriation is acknowledged to be $32.164 million. The Administration has also proposed a $50.908 million reduction to Fiscal Year 1986 "administrative expenses." The Postal Service does not agree that P.L. 99-177 authorizes inclusion of amounts from the Postal Service Fund in a sequester order, however, we nevertheless plan to improve the Fiscal Year 1986 financial results reflected in the Postal Service Fund by at least $50.908 million.

The following Program and Financing Statement, Statement of Revenue and Expense, and Statement of Financial Condition reflect the Postal Service forecasts for Fiscal Years 1986 and 1987, the projected impact of the Administration's proposals, and the projected impact of P.L. 99-177.

2/3/86

DATE: 01/26/86

U. S. POSTAL SERVICE
PROGRAM AND FINANCING
(in thousands of dollars)

| ITEM | ACTUAL FY 1985 | USPS ESTIMATE FY 1986 | PL 99-177 IMPACT | REVISED ESTIMATE FY 1986 | USPS ESTIMATE FY 1987 | OMB PROPOSED ADJ. | PL 99-177 C'OVER | OMB ESTIMATE FY 1987 |
|---|---|---|---|---|---|---|---|---|
| Program by activities: | | | | | | | | |
| Operating expenses: | | | | | | | | |
| Direct program: | | | | | | | | |
| Postal field operations | 22,808,674 | 23,719,983 | ... | 23,719,983 | 25,202,577 | 470,146 | ... | 25,672,723 |
| Transportation | 2,041,534 | 2,314,129 | ... | 2,314,129 | 2,453,103 | ... | ... | 2,453,103 |
| Building occupancy | 774,338 | 834,402 | ... | 834,402 | 868,998 | ... | ... | 868,998 |
| Supplies and services | 796,898 | 853,643 | ... | 853,643 | 890,178 | 264 | ... | 890,442 |
| Research and development | 13,677 | 15,600 | ... | 15,600 | 10,200 | ... | ... | 10,200 |
| Administration and regional operations | 2,299,815 | 2,495,038 | ... | 2,495,038 | 2,591,634 | 306,457 | ... | 2,898,091 |
| Interest | 107,740 | 186,731 | ... | 186,731 | 314,709 | ... | ... | 314,709 |
| Servicewide expenses | 158,886 | 126,468 | ... | 126,468 | 130,629 | 133 | ... | 130,762 |
| Subtotal | 29,001,562 | 30,545,994 | ... | 30,545,994 | 32,490,028 | 777,000 | ... | 33,267,028 |
| Adjustments for prior year obligations: | | | | | | | | |
| (a) Workers' compensation | 42,667 | 39,128 | ... | 39,128 | 40,049 | ... | ... | 40,049 |
| (b) Employees' earned and unused annual leave | 76,421 | ... | ... | ... | ... | ... | ... | ... |
| (c) Expired accounts | 4 | ... | ... | ... | ... | ... | ... | ... |
| Total direct program | 29,120,054 | 30,585,122 | ... | 30,585,122 | 32,530,077 | 777,000 | ... | 33,307,077 |
| Reimbursable program | 154,543 | 156,833 | ... | 156,833 | 163,570 | ... | ... | 163,570 |
| Total operating expenses | 29,274,597 | 30,741,955 | ... | 30,741,955 | 32,693,647 | 777,000 | ... | 33,470,647 |
| P. L. 99-177 | ... | ... | (50,908) | (50,908) | ... | ... | (53,361) | (53,361) |
| Capital investment: | | | | | | | | |
| Capital investment | 1,088,139 | 3,406,277 | ... | 3,406,277 | 1,579,554 | ... | ... | 1,579,554 |
| Total obligations | 30,362,736 | 34,148,232 | (50,908) | 34,097,324 | 34,273,201 | 777,000 | (53,361) | 34,996,840 |

DATE: 01/2b/8b

U. S. POSTAL SERVICE
PROGRAM AND FINANCING
(in thousands of dollars)

| ITEM | ACTUAL FY 1985 | USPS ESTIMATE FY 1986 | PL 99-177 IMPACT | REVISED ESTIMATE FY 1986 | USPS ESTIMATE FY 1987 | OMB PROPOSED ADJ. | PL 99-177 C'OVER | OMB ESTIMATE FY 1987 |
|---|---|---|---|---|---|---|---|---|
| Financing: | | | | | | | | |
| Offsetting collections from | | | | | | | | |
| Federal funds | (2,494,399) | (2,071,516) | 32,164 | (2,039,352) | (2,007,257) | 805,211 | ... | (1,202,046) |
| Non-federal sources | (26,805,028) | (28,853,532) | ... | (28,853,532) | (30,395,806) | (116,000) | ... | (30,511,806) |
| Unobligated balance available, start of year: Fund balance | (255,469) | (206,364) | ... | (206,364) | (206,364) | ... | ... | (206,364) |
| Unobligated balance available, end of year: Fund balance | 206,364 | 206,364 | ... | 206,364 | 206,364 | ... | ... | 206,364 |
| Unobligated balance restored | 49,105 | ... | ... | ... | ... | ... | ... | ... |
| Redemption of debt | 367,000 | 85,800 | ... | 85,800 | 138,360 | ... | ... | 138,360 |
| Budget authority (authority to borrow permanent, indefinite) | 1,430,309 | 3,308,984 | (18,744) | 3,290,240 | 1,928,998 | 1,546,211 | (53,361) | 3,421,348 |
| Relation of obligations to outlays: | | | | | | | | |
| Obligations incurred, net | 1,063,309 | 3,223,184 | (18,744) | 3,204,440 | 1,790,138 | 1,546,211 | (53,361) | 3,282,988 |
| Obligated balance, start of year: | | | | | | | | |
| Authority to borrow | 5,276,765 | 5,737,074 | ... | 5,737,074 | 7,732,058 | ... | ... | 7,732,058 |
| Fund balance | 1,826,682 | 2,288,139 | ... | 2,288,139 | 2,836,546 | ... | ... | 2,836,546 |
| Obligated balance, end of year: | | | | | | | | |
| Authority to borrow | (5,737,074) | (7,732,058) | ... | (7,732,058) | (8,791,767) | ... | ... | (8,791,767) |
| Fund balance | (2,288,139) | (2,836,546) | ... | (2,836,546) | (2,469,875) | ... | ... | (2,469,875) |
| Outlays | 141,543 | 679,793 | (18,744) | 661,049 | 1,097,100 | 1,546,211 | (53,361) | 2,589,950 |

U. S. POSTAL SERVICE
STATEMENT OF REVENUE AND EXPENSE
(IN THOUSANDS OF DOLLARS)

| | ACTUAL FY 1985 | USPS ESTIMATE FY 1986 | PL 99-177 IMPACT | REVISED ESTIMATE FY 1986 | USPS ESTIMATE FY 1987 | — OMB PROPOSED ADJ.— REVENUE FORGONE | NET FUNDING CHANGES | PL 99-177 COVER | OMB ESTIMATE FY 1987 |
|---|---|---|---|---|---|---|---|---|---|
| REVENUE AND OPERATING RECEIPTS: | | | | | | | | | |
| MAIL AND SERVICE REVENUES | 27,736,071 | 29,777,865 | ... | 29,777,865 | 31,262,932 | (116,000 | ... | ... | 31,378,932 |
| TOTAL APPROPRIATIONS | 1,289,129 | 748,000 | (32,164) | 715,836 | 873,260 | (833,211) | ... | ... | 40,049 |
| LESS: POD TRANSITIONAL COSTS | (230,509) | ... | ... | ... | (40,049) | ... | ... | ... | (40,049) |
| NET APPROPRIATIONS | 969,620 | 748,000 | (32,164) | 715,836 | 833,211 | (833,211) | ... | ... | 0 |
| TOTAL OPERATING REVENUE | 28,705,691 | 30,525,865 | (32,164) | 30,493,701 | 32,096,143 | (717,211) | ... | ... | 31,378,932 |
| OPERATING EXPENSES: | | | | | | | | | |
| PAYABLE FROM THE POSTAL SERVICE FUND, FUNDED: | | | | | | | | | |
| POSTAL FIELD OPERATIONS | 22,888,674 | 23,719,983 | ... | 23,719,983 | 25,202,577 | ... | 470,146 | ... | 25,672,723 |
| TRANSPORTATION | 2,041,334 | 2,314,129 | ... | 2,314,129 | 2,453,103 | ... | ... | ... | 2,453,103 |
| BUILDING OCCUPANCY | 774,338 | 834,402 | ... | 834,402 | 888,998 | ... | ... | ... | 888,998 |
| SUPPLIES AND SERVICES | 796,890 | 853,643 | ... | 853,643 | 898,178 | ... | 264 | ... | 898,442 |
| RESEARCH AND DEVELOPMENT | 13,677 | 15,600 | ... | 15,600 | 10,200 | ... | ... | ... | 10,200 |
| ADMINISTRATION & REGIONAL OPERATIONS | 2,299,815 | 2,495,038 | ... | 2,495,038 | 2,591,434 | ... | 386,657 | ... | 2,978,091 |
| SERVICEWIDE EXPENSES | 96,488 | 126,668 | ... | 126,668 | 130,629 | ... | 133 | ... | 130,762 |
| TOTAL ACCRUED COSTS | 28,831,416 | 30,359,263 | ... | 30,359,263 | 32,175,319 | ... | 777,000 | ... | 32,952,319 |
| OTHER OPERATING EXPENSES (NONFUNDED): | | | | | | | | | |
| DEPRECIATION AND AMORTIZATION | 356,189 | 371,678 | ... | 371,678 | 383,941 | ... | ... | ... | 383,941 |
| EXPENDABLE EQUIPMENT & OTHER | 4,060 | 4,186 | ... | 4,186 | 4,434 | ... | ... | ... | 4,434 |
| TOTAL OTHER OPERATING EXPENSES | 360,249 | 375,864 | ... | 375,864 | 388,375 | ... | ... | ... | 388,375 |
| P. L. 99-177 | ... | ... | (50,908) | (50,908) | ... | ... | ... | (53,361) | (53,361) |
| OPERATING SURPLUS BEFORE EXTRAORDINARY ITEMS | | | | | | | | | |
| TOTAL OPERATING REVENUE | 28,705,691 | 30,525,865 | (32,164) | 30,493,701 | 32,096,143 | (717,211) | ... | ... | 31,378,932 |
| TOTAL OPERATING EXPENSES BEFORE EXTRAORDINARY ITEMS | 29,191,665 | 30,735,127 | (50,908) | 30,684,219 | 32,563,694 | ... | 777,000 | (53,361) | 33,287,333 |
| NET INCOME BEFORE EXTRAORDINARY ITEMS | (485,974) | (209,262) | 18,744 | (190,518) | (467,551) | (717,211) | (777,000) | 53,361 | (1,908,401) |

DATE: 01/23/86

U. S. POSTAL SERVICE
STATEMENT OF REVENUE AND EXPENSE
(IN THOUSANDS OF DOLLARS)

| | ACTUAL FY 1985 | USPS ESTIMATE FY 1986 | PL 99-177 IMPACT | REVISED ESTIMATE FY 1986 | USPS ESTIMATE FY 1987 | + OMB PROPOSED ADJ.-- REVENUE FORGONE | RET. FUNDING CHANGES | PL 99-177 C'OVER | OMB ESTIMATE FY 1987 |
|---|---|---|---|---|---|---|---|---|---|
| EXTRAORDINARY GAINS AND LOSSES | | | | | | | | | |
| PROCEEDS FROM SALE OF ASSETS | 10,081 | 10,350 | ... | 10,350 | 7,350 | ... | ... | ... | 7,350 |
| NET BOOK VALUE OF ASSETS | 25,617 | 11,437 | ... | 11,437 | 10,287 | ... | ... | ... | 10,287 |
| GAIN OR LOSS ON SALE OF ASSETS | (15,536) | (1,087) | ... | (1,087) | (2,937) | ... | ... | ... | (2,937) |
| TOTAL OPERATING EXPENSES | 29,207,201 | 30,736,214 | (50,908) | 30,685,306 | 32,366,631 | ... | 777,000 | (53,361) | 33,290,270 |
| NET OPERATING INCOME OR LOSS (-) | (501,310) | (210,349) | 18,744 | (191,605) | (470,488) | (717,211) | (777,000) | 53,361 | (1,911,338) |
| NONOPERATING INCOME AND EXPENSE: | | | | | | | | | |
| INVESTMENT INCOME | 309,870 | 232,000 | ... | 232,000 | 216,000 | (52,000) | ... | ... | 164,000 |
| INTEREST EXPENSE | 59,840 | 93,476 | ... | 93,476 | 185,169 | ... | ... | ... | 185,169 |
| SUMMARY OF REVENUE AND EXPENSE | | | | | | | | | |
| TOTAL REVENUES | 29,815,561 | 30,757,865 | (32,164) | 30,725,701 | 32,312,143 | (769,211) | ... | ... | 31,542,932 |
| TOTAL EXPENSES | 29,267,041 | 30,829,690 | (50,908) | 30,778,782 | 32,751,800 | ... | 777,000 | (53,361) | 33,475,439 |
| NET INCOME | (251,480) | (71,825) | 18,744 | (53,081) | (439,657) | (769,211) | (777,000) | 53,361 | (1,932,507) |

ACTUAL FISCAL YEAR: 1985

STATEMENT OF REVENUE AND EXPENSE

U. S. Postal Service
STATEMENT OF FINANCIAL CONDITION
(IN THOUSANDS OF DOLLARS)

| | ACTUAL FY 1984 | ACTUAL FY 1985 | USPS ESTIMATE FY 1986 | PL 99-177 IMPACT | REVISED ESTIMATE FY 1986 | USPS ESTIMATE FY 1987 | OMB PROPOSED ADJ. | PL 99-177 COVER | OMB ESTIMATE FY 1987 |
|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | | |
| CASH | 272,078 | 287,602 | 308,125 | (1,256) | 306,869 | 310,665 | (8,211) | 42,105 | 344,559 |
| INVESTMENTS | 2,277,416 | 2,362,116 | 2,890,000 | 20,000 | 2,910,000 | 3,638,000 | (1,538,000) | 30,000 | 1,530,000 |
| ACCOUNTS RECEIVABLE: | | | | | | | | | |
| U.S. GOVERNMENT AGENCIES | 430,686 | 194,718 | 234,846 | ... | 234,846 | 237,846 | ... | ... | 237,846 |
| FOREIGN COUNTRIES | 214,861 | 197,332 | 201,332 | ... | 201,332 | 205,832 | ... | ... | 205,832 |
| OTHER | 52,569 | 56,662 | 57,662 | ... | 57,662 | 58,662 | ... | ... | 58,662 |
| TOTAL | 698,116 | 448,712 | 493,840 | ... | 493,840 | 502,340 | ... | ... | 502,340 |
| LESS: ALLOWANCE | (18,843) | (20,769) | (21,769) | ... | (21,769) | (22,269) | ... | ... | (22,269) |
| ACCOUNTS RECEIVABLE -NET | 679,273 | 427,943 | 472,071 | ... | 472,071 | 480,071 | ... | ... | 480,071 |
| INVENTORIES | 104,840 | 147,987 | 147,987 | ... | 147,987 | 147,987 | ... | ... | 147,987 |
| ADVANCES AND PREPAYMENTS | 9,029 | 22,421 | 23,421 | ... | 23,421 | 24,421 | ... | ... | 24,421 |
| TOTAL CURRENT ASSETS | 3,342,636 | 3,248,069 | 3,841,604 | 18,744 | 3,860,348 | 4,001,144 | (1,546,211) | 72,105 | 2,527,038 |
| OTHER ASSETS | 10,155 | 6,868 | 6,813 | ... | 6,813 | 6,758 | ... | ... | 6,758 |
| PROPERTY AND EQUIPMENT - NET | 5,609,141 | 6,233,687 | 7,247,523 | ... | 7,247,523 | 8,358,343 | ... | ... | 8,358,343 |
| DEFERRED COSTS | 12,597,726 | 17,571,593 | 17,999,384 | ... | 17,999,384 | 18,371,752 | ... | ... | 18,371,752 |
| TOTAL ASSETS | 21,559,658 | 27,060,217 | 29,095,324 | 18,744 | 29,114,068 | 30,737,997 | (1,546,211) | 72,105 | 29,263,891 |
| LIABILITIES | | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | | |
| OUTSTANDING MONEY ORDERS | 265,947 | 302,310 | 302,310 | ... | 302,310 | 302,310 | ... | ... | 302,310 |
| COMPENSATION AND EMPLOYEE BENEFITS | 1,453,856 | 1,638,604 | 1,764,542 | ... | 1,764,542 | 2,070,894 | ... | ... | 2,070,894 |
| ACCOUNTS PAYABLE TO OTHER GOVERNMENT AGENCIES | 158,389 | 101,232 | 134,923 | ... | 134,923 | 170,825 | ... | ... | 170,825 |
| OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES | 749,701 | 659,132 | 679,132 | ... | 679,132 | 704,132 | ... | ... | 704,132 |
| NOTES PAYABLE - FFB | 367,000 | 85,000 | 138,360 | ... | 138,360 | 193,000 | ... | ... | 193,000 |
| MORTGAGES PAYABLE | 6,000 | 6,000 | 6,000 | ... | 6,000 | 6,000 | ... | ... | 6,000 |
| PREPAID PERMIT MAIL AND BOX RENTALS | 493,003 | 564,815 | 604,815 | ... | 604,815 | 649,815 | ... | ... | 649,815 |
| ESTIMATED PREPAID POSTAGE IN HANDS OF THE PUBLIC | 889,000 | 954,000 | 1,019,000 | ... | 1,019,000 | 1,004,000 | ... | ... | 1,004,000 |
| TOTAL CURRENT LIABILITIES | 4,375,896 | 4,311,093 | 4,649,082 | ... | 4,649,082 | 5,109,776 | ... | ... | 5,109,776 |

DATE: 01/26/86

U. S. POSTAL SERVICE
STATEMENT OF FINANCIAL CONDITION
(IN THOUSANDS OF DOLLARS)

| | ACTUAL FY 1984 | ACTUAL FY 1985 | USPS ESTIMATE FY 1986 | PL 99-177 IMPACT | REVISED ESTIMATE FY 1986 | USPS ESTIMATE FY 1987 | OMB PROPOSED ADJ. | PL 99-177 C'OVER | OMB ESTIMATE FY 1987 |
|---|---|---|---|---|---|---|---|---|---|
| LONG-TERM DEBT: | | | | | | | | | |
| NOTES PAYABLE - FFB | 720,000 | 1,604,200 | 2,779,840 | ... | 2,779,840 | 3,972,040 | ... | ... | 3,972,040 |
| USPS BONDS PAYABLE | 250,000 | 250,000 | 250,000 | ... | 250,000 | 250,000 | ... | ... | 250,000 |
| MORTGAGES PAYABLE | 122,264 | 129,063 | 123,063 | ... | 123,063 | 117,063 | ... | ... | 117,063 |
| TOTAL LONG-TERM DEBT | 1,092,264 | 1,983,263 | 3,152,903 | ... | 3,152,903 | 4,339,103 | ... | ... | 4,339,103 |
| OTHER LIABILITIES: | | | | | | | | | |
| EMPLOYEES' ACCUMULATED LEAVE | 734,557 | 776,121 | 808,371 | ... | 808,371 | 842,791 | ... | ... | 842,791 |
| WORKERS' COMPENSATION | 2,663,000 | 2,776,000 | 2,949,000 | ... | 2,949,000 | 3,100,000 | ... | ... | 3,100,000 |
| OTHER | 20,000 | 20,000 | 20,000 | ... | 20,000 | 20,000 | ... | ... | 20,000 |
| AMOUNT PAYABLE FOR RETIREMENT BENEFITS | 12,363,202 | 17,134,576 | 17,529,429 | ... | 17,529,429 | 17,699,445 | ... | ... | 17,699,445 |
| TOTAL OTHER LIABILITIES | 15,780,759 | 20,706,697 | 21,306,800 | ... | 21,306,800 | 21,662,236 | ... | ... | 21,662,236 |
| TOTAL LIABILITIES | 21,248,919 | 27,001,853 | 29,108,785 | ... | 29,108,785 | 31,191,115 | ... | ... | 31,191,115 |
| GOVERNMENT EQUITY | | | | | | | | | |
| UNDELIVERED ORDERS: | | | | | | | | | |
| OPERATIONS | 733,569 | 749,552 | 749,552 | ... | 749,552 | 749,552 | ... | ... | 749,552 |
| CAPITAL INVESTMENT | 849,275 | 903,589 | 3,002,039 | ... | 3,002,039 | 3,201,706 | ... | ... | 3,201,706 |
| TOTAL UNDELIVERED ORDERS | 1,582,844 | 1,653,141 | 3,751,591 | ... | 3,751,591 | 3,951,258 | ... | ... | 3,951,258 |
| UNFINANCED BORROWING AUTHORITY | (5,276,765) | (5,737,074) | (7,732,058) | 18,744 | (7,713,314) | (8,274,556) | (1,546,211) | 72,105 | (9,748,662) |
| RECEIVABLE ESTABLISHED FOR FUTURE OPERATIONS | | | | | | | | | |
| INVESTMENT IN PROPERTY, EQUIPMENT AND INVENTORIES - NET | 4,004,660 | 4,142,297 | 3,967,006 | ... | 3,967,006 | 3,870,180 | ... | ... | 3,870,180 |
| TOTAL GOVERNMENT EQUITY/ DEFICIENCY (-) | 310,739 | 58,364 | (13,461) | 18,744 | 5,283 | (453,118) | (1,546,211) | 72,105 | (1,927,224) |
| TOTAL LIABILITIES AND EQUITY | 21,559,658 | 27,060,217 | 29,095,324 | 18,744 | 29,114,068 | 30,737,997 | (1,546,211) | 72,105 | 29,263,891 |

DATE: 01/2a/8a

U. S. POSTAL SERVICE
STATEMENT OF FINANCIAL CONDITION
(IN THOUSANDS OF DOLLARS)

| | ACTUAL FY 1984 | ACTUAL FY 1985 | USPS ESTIMATE FY 1986 | PL 99-177 IMPACT | REVISED ESTIMATE FY 1986 | USPS ESTIMATE FY 1987 | OMB PROPOSED ADJ. | PL 99-177 C'OVER | OMB ESTIMATE FY 1987 |
|---|---|---|---|---|---|---|---|---|---|
| ANALYSIS OF CHANGES IN GOVERNMENT EQUITY: | | | | | | | | | |
| NON-INTEREST-BEARING CAPITAL: | | | | | | | | | |
| START OF YEAR | 111,770 | 310,739 | 58,364 | ... | 58,364 | (13,461) | ... | 18,744 | 5,283 |
| TRANSFERS AND ADJUSTMENTS | 81,617 | (895) | ... | ... | ... | ... | ... | ... | ... |
| NET INCOME OR LOSS (-) FOR YEAR | 117,352 | (251,480) | (71,825) | 18,744 | (53,081) | (439,657) | (1,546,211) | 53,361 | (1,932,507) |
| TOTAL | 310,739 | 58,364 | (13,461) | 18,744 | 5,283 | (453,118) | (1,546,211) | 72,105 | (1,927,224) |

ACTUAL FISCAL YEAR: 1985

STATEMENT OF FINANCIAL CONDITION

COMPREHENSIVE
STATEMENT
ON
POSTAL
OPERATIONS

1985

# INTRODUCTION

This is the tenth annual "Comprehensive Statement on Postal Operations" transmitted to the Congress as required by title 39, United States Code, Section 2401(g). As in past years, the annual Statement discusses in depth the current and planned policies and procedures of the Postal Service, its financial status for the year and projections for future financial success, and its service offerings and proposed innovations to serve the public better with essential communications services. The 1985 Statement also discusses a number of issues which have been raised during the year by individual members of Congress in the course of the 26 hearings at which postal witnesses appeared or in the tens of thousands of written or telephonic inquiries to the Postal Service from Members or their staffs. The publication is again organized in a format to comply with the literal requirements of the statute. Chapter I discusses the Postal Service's compliance with the seven policy directives set forth in 39 U.S.C. 101. Chapters II and III cover postal operations in general and the current financial status of the postal system.

The Comprehensive Statement and the Annual Report of the Postmaster General provide the legislative and appropriations committees having jurisdiction over the Postal Service with the necessary information to prepare for and conduct annual oversight and budget review hearings. In addition, this Statement is an excellent source document for Congressional staff members on all aspects of the Nation's postal system. The Postal Service welcomes the opportunity to keep Congress fully informed of its activities and its progress and remains willing to furnish any additional information which the Congress believes is necessary for it to carry out its oversight responsibilities.

## Board of Governors
## Fiscal Year 1985

**John R. McKean,** Chairman of the Board, was appointed a Governor in 1982 for a term expiring December 8, 1991. He is President of John R. McKean Accountants in San Francisco, California.

**George W. Camp** of Atlanta, Georgia, Vice-Chairman of the Board, became a Governor in 1979 for a term expiring December 8, 1985. He is a retired postal executive with more than 36 years of federal service.

**John N. Griesemer,** President of the Griesemer Stone Company in Springfield, Missouri, became a Governor in 1985 for a term expiring December 8, 1986.

**Ruth O. Peters,** of Arlington, Virginia, a retired postal executive, was appointed to the Board in 1983 for a term expiring December 8, 1987. She is chairman of the Board's Technology and Development Committee.

**John L. Ryan,** Vice President of MET-PRO Corporation and General Manager of its Dean Pump Division in Indianapolis, Indiana, became a postal Governor in 1983 for a term expiring December 8, 1989. He chairs two Board committees: Postal Rates and Revenues, and Employment Responsibilities and Labor Relations.

**William J. Sullivan,** Vice-Chancellor and Treasurer of the University of Maine, was appointed to the Board in 1979 for a term scheduled to expire December 8, 1984. As provided by law, he continued to serve until December 8, 1985 pending the confirmation of a successor. He chaired the Board's Audit and Finance Committee.

**Peter E. Voss,** founder and Chairman of the Northeastern Group and President of Midland Engineering, Inc., in Canton, Ohio, was appointed to the Board in 1982 for a term expiring December 8, 1990. He is chairman of the Board's Planning and Executive Resources Committee.

**Paul N. Carlin** served as Postmaster General from January 1, 1985 to January 6, 1986. A postal executive since 1969, he served in a variety of positions including Regional Postmaster General in the Eastern and Central Regions.

**Jackie A. Strange,** named Deputy Postmaster General by the Board on January 8, 1985, is the chief operating officer and alternate chief executive officer of the Postal Service. She joined the Postal Service in 1947.

At the close of Fiscal 1985, there were three vacancies on the Board for terms expiring in 1988, 1992 and 1993.

# CHAPTER I

# COMPLIANCE WITH STATUTORY POLICIES

This Chapter responds to the requirement in title 39, United States Code, section 2401.(g)(1) calling for a comprehensive statement which discusses the plans, policies, and procedures of the Postal Service designed to comply with all of the provisions of section 101 of title 39.

## A. Fundamental Service to the People (39 U.S.C 101(a)).

> The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.

### 1. General

Fiscal Year 1985 produced substantial new challenges for the Postal Service and tested the mettle of postal managers and craft employees to provide first-rate postal service while still holding postal costs to reasonable levels. The January 1985 appointment by the Service's Governors of career employee Paul N. Carlin as the 66th Postmaster General of the United States and by the Governors and Mr. Carlin of Jackie A. Strange as his Deputy, brought to postal employees a new philosophy of participatory management and a strong orientation toward the customer. This latter direction is consistent with the conclusions of several outside studies which have pointed out that, although the Postal Service has done an exemplary job of staying attuned to the needs of business mailers, more attention should be paid to individual customers. Now, the theme of providing postal services in an efficient, friendly, and helpful manner is echoed in virtually every written and oral communication from senior management and is beginning to take hold throughout the organization.

The first and most important task which faced this new team was to restore service to appropriate levels. A number of changes took place in early 1985 which had a deleterious effect on service for most classes of mail, particularly Express Mail. Foremost among these were changes in over one-half of the existing airline schedules and the loss of night air freighter service. These changes required the renegotiation of contracts first negotiated only one month earlier and precipitated delays in transportation due to the loss of lift capacity at the times required by the Postal Service. It also caused the Postal Service to ship more mail under more expensive "system" contracts as opposed to the "segment" contracts originally envisioned. For more information on this issue, please refer to the item on air transportation later in Chapter I. The shift of all second-class mail to the preferential mailstream greatly increased the manual handling of mail at general mail facilities, occasioning delays and increased costs.

The Deputy Postmaster General, who is directly responsible for field operations, with the assistance of an ad hoc Committee of the Board of Governors chaired by Governor George Camp, moved quickly to set things right when these unfavorable service trends became apparent. Among the first actions taken was securing night air freighter service between ten hub cities for Express Mail service. Shortly after this service was initiated, Express Mail service began to improve, to the point where it now surpasses that offered during Fiscal Year 1984. With respect to letter mail service, specific regional service targets were set for all twelve categories of incoming and outgoing mail and computer software was made available to track progress toward these goals. As with Express Mail, letter mail service now exceeds Fiscal Year 1984 levels. Parcel post service has been dramatically improved through the nationwide implementation of a parcel post improvement program successfully pioneered in the Southern Region. Audits of the 100 largest postal facilities by the Postal Inspection Service produced numerous suggestions for improvements and field managers were given a free hand promptly to take corrective action. Monitoring systems have been established at all levels of management to ensure that progress will continue toward service goals.

On the financial side, additional air transportation and startup costs associated with moving all second-class mail to the surface preferential system added to postal expenses. Lower-than-expected increases in mail volume led to operating deficits in several accounting periods and the attention paid to service was not without its own cost consequences. These factors placed a strain on postal finances and caused the Postal Service to revise its projection for the year from a slight surplus to a possible deficit of $500 million. In response to this poor financial forecast, management and the Board set to work to restore fiscal balance.

A significant portion of the unplanned expenses the Postal Service faced came from excessive personnel costs. In past years, postal supervisors managed personnel costs by controlling workhours. This method was reasonably effective when the range of workhour costs averaged only about 10 percent between normal and

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overtime workhours. However, with the implementation of the 1984 labor arbitration settlements early in Fiscal Year 1985, postal managers recognized that, as the upper range of workhour costs had grown to almost $25.00 per hour for penalty overtime for more senior employees, simply controlling workhours would no longer control personnel costs. In mid-year, managers throughout the Postal Service began substituting lower priced workhours for higher priced overtime workhours. This changed philosophy of managing resources was extremely successful and played a key role not only in reducing overall expenses during the current year well below earlier forecasts, but in holding Fiscal Year 1986 budget projections in line as well.

The success of this approach to managing personnel resources is clearly demonstrated in its effect on overtime usage. The system-wide overtime rate in Accounting Period 1 of Fiscal Year 1985 had risen to 10.6 percent. Management continued to track overtime usage carefully, hiring where prudent, to avoid the payment of penalty overtime and succeeded in reducing the overtime rate in Accounting Period 13 to 5.8 percent and in accumulating overtime savings totaling $419 million for the last six accounting periods. During this same period, the number of overtime hours per employee was reduced by 37 percent.

Management also took other steps to reduce compensation expenses. Senior postal managers took a temporary 3.5 percent reduction in their pay and a scheduled future pay increase for over 700 managers was deferred. (The reduction was restored and the raise implemented on September 28, 1985 as a result of the improved financial picture.) Vacant positions not critical to the movement of the mail were not filled, and attendance improvement procedures were reemphasized, since absenteeism creates scheduling problems and excess expenses. On the operations side, lower work hours were achieved through renewed emphasis on central point delivery and on reviews of the street travel patterns of carriers. Postal managers also tested a variety of ways to improve the efficiency of multi-position letter sorting machine operations and began to take calculated risks in their staffing decisions. Since air transportation costs were moving far above what had been planned, the Postal Service acted to shift mail to other modes of transportation and to make better use of the air transportation available. Postal vehicle operations were streamlined to eliminate unnecessary trips and to achieve greater fuel efficiency. In the customer services and finance areas, postal revenues were enhanced by more aggressive promotion of Express Mail and other premium postal services and by more determined efforts to collect delinquent accounts and reduce bad check losses.

The Service undertook a number of cost reduction actions in the administrative area to demonstrate its resolve to set its financial house in order. All travel and training were reviewed and curtailed where not essential to employee safety or moving the mail. Details to other positions or facilities were reduced and officer-in-charge assignments to positions beyond commuting distance were discouraged. Requests for supplies and services were carefully screened and only the most essential approved. Stringent inventory control procedures were put into operation to avoid overstocking and to establish more realistic reorder points. Rental and consulting contracts were reexamined to see if they were still justified, purchases of periodical publications curtailed, and the size and frequency of the Postal Service's own publications were reduced. In short, no stone was left unturned in the Service's attempts to produce a more favorable financial picture. These efforts reduced the fiscal year deficit to $251 million. There is every expectation that this favorable trend will continue into Fiscal Year 1986. The five postal regions and postal Headquarters have already submitted break-even budgets for Fiscal Year 1986 and management intends to continue with its tough cost control program.

While these firm actions in the face of serious service and cost problems were being taken, several other significant events transpired. New postage rates for all classes of mail were implemented on Feburary 17, 1985, more than three years after the last rate increase. Rates were increased by an average of nine percent across all classes of mail -- below the increase in the Consumer Price Index for the same period -- with a First-Class stamp rising from 20 to 22 cents. Second- and third-class regular rates went up approximately 14 percent and parcel post increased by 11 percent. Without these rate adjustments, the Postal Service had estimated that it would lose more than $3 billion during Fiscal Year 1985, the test year used in the rate proceedings. Despite the rate increase, mail volume has risen 6.5 percent, somewhat below the 10.2 percent recorded last year and approximately at the level that had been predicted. A few of the parties to the original rate proceeding sought judicial review of the Governors' decision implementing the new rates, and a decision unanimously rejecting this challenge was rendered by the U.S. Court of Appeals for the Second circuit on December 3, 1985.

Eight months after the Postal Service began bargaining with the four exclusive unions representing nearly all its employees, arbitration awards determined the provisions of the labor contracts governing wages, benefits, and other terms and conditions of employment for craft union members for the next three years. (The rural letter carriers contract runs for 42 months.) After hearing arguments from the Postal Service that wage levels ought to be pared back to comparability with those in the private sector of the economy and from the postal unions that postal employees ought to receive higher wages and greater protection against inflation, the panels decided that postal wage levels for current employees had gone beyond comparability. Clark Kerr, Chairman of the panel hearing the American Postal Workers Union -- National Association of Letter Carriers interest arbitration, concluded that the principle of "moderate restraint" should govern future postal wage determinations. Under this principle, Dr. Kerr noted, the rate of

postal wage increases should be less than the overall rate of increases occurring in the private sector of the economy. The panels also approved lower entry wages for new postal employees which adhere more closely to the comparability standard. In all, three major collective bargaining agreements were determined through interest arbitration during Fiscal Year 1985, all of which incorporated or were consistent with the principle of moderate restraint.

The Postal Service's accelerated program to automate mail processing continued on schedule and under budget during the fiscal year, but the program will proceed on a new course in the future. In the early part of the year, the Service reached the end of its first phase, completing the deployment of 248 single-line optical character readers at 119 sites and an identical number of bar code sorters at 121 sites at a total equipment cost of $219 million. The second phase of the program is well under way following the competitive award last year of contracts to ElectroCom Automation Incorporated for 406 additional single-line optical character readers and 452 bar code sorters. Deliveries of the Phase II optical character readers began in October and will continue through 1988. The first Phase II bar code sorter, for use in training, will be delivered to the Technical Training Center in February 1986, with the first production machine arriving in Chicago in April. The total contract price for this equipment is $278.7 million. When these contracts have been completed and an additional 250 retrofit kits (which enable multi-position letter sorting machine operators to use the four-digit add-on portion of the ZIP + 4 code in mail processing) are deployed, the Postal Service will have 211 sites equipped with automated mail processing equipment.

Optical character reader technology has advanced rapidly and the use of the ZIP + 4 code by business mailers has been slower to develop than planned. Accordingly, the Postmaster General announced at the August meeting of the Board of Governors that the Postal Service planned to acquire multi-line optical character readers which can read an entire address, search a computerized directory to determine the ZIP + 4 code for that address, and print an appropriate bar code on the envelope. He said the Service also planned to acquire a kit so that the Phase II single-line optical character readers to be delivered over the next four years may be expanded to multi-line capacity. This decision followed extensive study of every aspect of the automation and ZIP + 4 program by a committee of the Board of Governors chaired by Governor Ruth Peters. Following the anticipated successful testing of these multi-line machines during 1986, the Postal Service intends to purchase as many as 250 single transport (or 125 dual transport) multi-line optical character readers and install them in major mail processing facilities. The single-line equipment now at these sites would be redeployed to smaller cities.

Regardless of the technology used to automate mail processing, the use of the ZIP + 4 code is essential to the success of the program. The maximum benefits of automation will only be realized if mailers use the ZIP + 4 code which, when coupled with multi-line equipment, will yield the highest productivity gains and the greatest cost savings. Accordingly, the Postal Service will continue its efforts to encourage and assist mailers to convert to and use the ZIP + 4 code. ZIP + 4 volume tripled during Fiscal Year 1985 and the Service plans to encourage much greater use of ZIP + 4 codes by mailers in the coming years.

In April 1985, the Postal Service temporarily suspended the requirement that at least 85 percent of a Presort ZIP + 4 mailing consist of mail bearing the ZIP + 4 code in order to allow businesses and presort bureaus to maximize the volume of mail qualifying for ZIP + 4 discounts without sacrificing current rate incentives. The Postal Service expects to establish a new minimum percentage sometime during the Spring of 1986, based upon mailers' ability to match their mailing lists with the Postal Service's ZIP + 4 directory. On November 5, the Postal Service announced that it will propose simplified rules permitting Presort First-Class ZIP + 4 mail to be presorted only to three digits rather than to five digits as is now required, if it is destined for post offices with automated equipment. No additional savings to the Postal Service accrue by requiring five-digit presortation of ZIP + 4 mail at such offices. The Postal Service remains fully committed to the ZIP + 4 code and is working hard to assist mailers who wish to convert to its use.

The year also saw changes in the Postal Service's electronic offerings. INTELPOST, its experimental international facsimile service, was converted from a store-and-forward configuration to a dial-up operation in order to reduce costs. E-COM service, the electronic message system which was born in January 1982 and grew modestly amidst continuing controversy and litigation, terminated operations on September 3, 1985. The Postal Service decided in June 1985 that since the E-COM service was not paying its own way under current rates and was not likely to do so in the future, E-COM service ought to be discontinued in 90 days if an acceptable offer to lease or purchase the system had not been received by that time. The Postal Service had been attempting to divest the system since October 1984 but had received no suitable offer. The divestiture effort fared no better between June and August 1985, and E-COM service was subsequently halted in September. The Postal Service then moved to dispose of the E-COM equipment promptly but in such a way that it could be acquired by a buyer or buyers interested in providing electronic mail services to the public. The E-COM software was licensed to the public on a non-exclusive basis for only the cost of reproduction.

In retrospect, Fiscal Year 1985 was a transitional year in which postal management demonstrated its ability to react quickly and decisively in the face of adverse conditions and its will to make the hard choices on the expense side of the ledger rather than seek additional rate revenue soon after a general rate increase. This determination

now imbues the thinking of postal managers and bodes well for the ability of the institution to face up to any crisis.

**2. Strategic Business Plan.**

The Strategic Business Plan was published in June 1985 following extensive senior management discussions and detailed review by the Board of Governors. The Strategic Plan contains a set of explicit assumptions about the Postal Service and its environment covering the next five years. Among the key assumptions are that mail volume will be between 165 and 175 billion pieces by 1990, that the Postal Service will experience increased competition in all of its basic product lines, and that the success of the Postal Service depends in large part upon the ability to sustain a climate of increased communication, mutual trust, and improved understanding within the organization. Beyond this, it was assumed that the basic structure of the Postal Service would remain the same and that volume growth can be encouraged or discouraged by postal management action. The strategic planning process focuses on the changes required in order to better fulfill the goals of the Postal Reorganization Act, with the accompanying objectives and strategies providing the framework for the development of postal programs and policies.

During the planning period, the Postal Service will seek to improve the coordination of postal policies and programs affecting various users of the mails and the internal cooperation in activities to improve service offerings. This will entail ensuring that projects are in concert with the Plan and that management and staff attention is focused on the impact which projects have on all functional areas. The Postal Service will also attempt to design and develop management information and accountability systems which provide data on customer needs, market conditions, and the performance of postal services, including additional methods for measuring revenue generation. This will be accomplished by fully implementing the Postal Service's Information Systems Plan and by managers making use of those systems to improve their operations. Finally, the Service must provide high quality postal service while retaining its emphasis on cost control and productivity so that both efficiency and quality service are recognized as Postal Service achievements. This final objective also involves maintaining the pattern of multi-year rate stability. The Postal Service hopes to achieve this goal by creating an organizational awareness that the most efficient service is high quality service and by developing and using appropriate measures of performance evaluation.

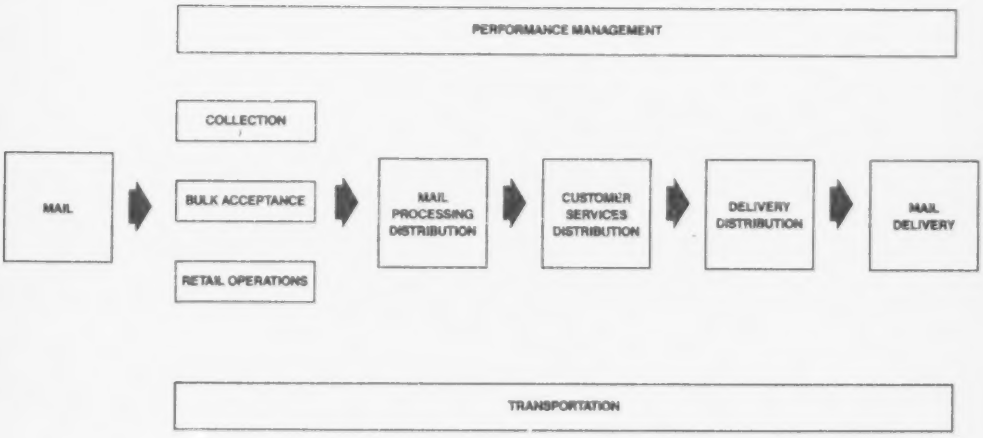
The next steps in the planning process will focus on linking individual and functional goals with the objectives of the Postal Service. The Operations Systems Model depicted in Table 1 will be used to examine the operational relevance of various strategies and programs. This process should also improve coordination as managers obtain better information about the activities of other functions and gain insight into their role in the system.

3. Board of Governors.

The Governors of the Postal Service, currently eight in number, began a challenging and productive year by selecting career postal employee Paul N. Carlin as the 66th Postmaster General of the United States and career employee Jackie A. Strange as the Deputy Postmaster General. These two officials together with the presidentially

**TABLE 1**

**The Operations System**



appointed Governors, make up the Board of Governors of the Postal Service. While the entire Board approves requests to the independent Postal Rate Commission for changes in rates and classes of mail, only the Governors act upon recommended decisions received from the Commission. The Governors may approve, allow under protest, reject or, under limited circumstances, modify that decision. During Fiscal Year 1985, the Board of Governors held monthly meetings in Anchorage, Cleveland, San Diego, and the District of Columbia. In addition to 24 days of Board meetings, the part-time Governors devoted hundreds of hours in preparation for Board meetings, reviewing management proposals and doing independent research on topics of importance to the Postal Service. On two occasions, Governors appeared before a committee or subcommittee of the Congress: once at an annual oversight hearing before the House Post Office and Civil Service Committee and once before a subcommittee of the House Government Operations Committee to discuss the ZIP + 4 code program.

During the fiscal year, the Board had under consideration a number of issues of significant importance to both the short- and long-term viability of the Postal Service. In December 1984, following a detailed review of the extensive record compiled by the Postal Rate Commission and the evaluation of technical presentations by postal management and counsel to the Board, the Governors approved a recommended decision of the Commission providing for increased postage rates and fees for all classes of mail. The Governors concluded that the new rates would not have to be put into effect until February 1985, slightly more than three years after the previous general rate increase. The Board's Chairman noted that none of the Governors welcomed the increase and that the entire Board had worked hard to forestall it for as long as possible, but pointed out that postal costs had overtaken revenues in the months preceding the Governors' decision. The Chairman also indicated that the Governors intended to revisit the controversial issue of third-class rates outside of the context of a rate proceeding and expressed the Governors' concern that the increased presort discounts recommended by the Postal Rate Commission in the omnibus rate decision might have unintended adverse effects on the ZIP + 4 code program. Closely related to the amount and timing of postage rate increases is the issue of cost control and Fiscal Year 1985 saw the Board exercising firm oversight of postal management's efforts to keep operating costs in line. This was accomplished through the development of an appropriate strategy to control future labor costs and through action and monitoring by a Board committee established to help management cope with unforeseen cost increases which darkened the Service's financial picture in mid-year. This cost control program significantly improved postal finances and set the tone and direction for future management practices. The Board made certain that these cost-conscious efforts did not in any way diminish the quality of the service afforded postal customers.

Another vitally important Board activity during the fiscal year was its comprehensive review of the automation and ZIP + 4 code program. The Board's Technology and Development Committee researched every aspect of the program, including the technology available, rate incentive strategy, and the need for the ZIP + 4 code, and made sweeping recommendations to the Board. As a result of the Committee's work, the Board directed postal management to move as quickly as possible to acquire optical character readers capable of reading up to four lines of an address, to convert the single-line optical character readers now on order to multi-line configuration, and to undertake certain other activities to ensure the success of the program. At the same time, the Board emphasized its continued strong support for the ZIP + 4 code program and stressed the importance of mailers using ZIP + 4 codes to produce the maximum benefits from automated mail processing. The Board also stressed strong support for the automation of all mail handling operations for all classes of mail to provide the mailers and public with the most economical and efficient service possible.

After several years of experimentation in using electronic technology to transport letters, the Board approved a proposal by postal management to shut down Electronic Computer Originated Mail or E-COM service and remove E-COM from the Domestic Mail Classification Schedule. E-COM service was the source of much controversy during its relatively brief existence and never did recover its costs or show signs of doing so in the foreseeable future. Among the other critical issues which came before the Board during 1985 were the long-life vehicle program, experimental parcel post rates, the timing of increases for nonprofit and preferred rate mailers based upon Congressional appropriation activity, and the capital investment program of the Postal Service. To finance the latter, the Board approved borrowing $970 million from the Federal Financing Bank so that the costs of capital facilities and equipment would be more equitably distributed over the useful life of the investment.

The preceding outlines the major accomplishments of the Postal Service during Fiscal Year 1985. These topics and related matters are discussed in greater depth in the following chapters of this Comprehensive Statement.

## B. Service to Small or Rural Communities (39 U.S.C. 101(b)).

> The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of Congress that effective postal services be insured to residents of both urban and rural communities.

Whether as the Post Office Department or the Postal Service, the Nation's postal system has taken seriously its mandate to serve all of the people no matter where they

choose to live. A comprehensive network of independent post offices and branches staffed by postal employees, community post offices operated by contractors, detached box units, centralized delivery receptacles, and rural and highway contract routes ensures that small towns, certain suburban communities, and rural areas are provided with the full range of postal services. In Fiscal Year 1985, this unique physical delivery system had 29,552 post offices operated by the Postal Service and 1,691 community post offices run by business persons under contract to the Postal Service. These latter offices are typically managed by small shopkeepers in rural areas and offer the same service available at facilities operated directly by the Postal Service.

Rural mail carriers, literally post offices on wheels, delivered to 17,376,530 receptacles on 40,394 rural routes during the year. Rural carriers traveled 732 million miles, an average of 2.4 million every day, to provide their customers with services ranging from the collection and delivery of mail to stamp sales and applications for postal money orders. Inasmuch as growth in rural areas has outstripped that in city delivery areas, the Postal Service added 773,571 new rural deliveries and 1,477 new rural routes during Fiscal Year 1985, to the point where 19 percent of all delivery service is now rural delivery. Five thousand of the Postal Service's 12,000 highway contract routes served rural customers this past year.

While the Postal Service's physical delivery network is unique, and a major business asset, it can still be improved and made more efficient. During Fiscal Year 1985, the Postal Service closed or consolidated 230 post offices which were no longer necessary to provide an appropriate level of postal services. Typically, this action was precipitated by a vacancy in the postmaster position or the lack of an appropriate facility to house the post office. However, a closing or consolidation of a post office would occur only if equivalent or improved service could be offered to the residents of that community by other more cost-effective means and if the other factors specified in the law had been studied and the findings made available to the individuals served by the office proposed for closing. Customers submitted 31 post office closing appeals to the Postal Rate Commission during the fiscal year. In those proceedings, 22 decisions to close or consolidate were affirmed, four cases were remanded to the Postal Service for further consideration, one appeal was dismissed on procedural grounds, and three cases were withdrawn by the Postal Service. The remaining case should be decided by the Commission in the near future. The number of remanded cases has been drastically reduced over the last few years through postal management's emphasis on sound case preparation and community surveys to determine the views of local postal customers.

Throughout Fiscal Year 1985, there was much discussion of a supposed plan to close thousands of small post offices. This proposal did not originate with the Postal Service, but was to be found among the many recommendations made two years ago by the President's Private Sector Survey on Cost Control (The Grace Commission). The Postal Service does not agree with this suggestion and has formulated no plans to implement it. Decisions to close or consolidate post offices continue to be made on a case-by-case basis in strict compliance with the statutory criteria set forth in 39 U.S.C. 404(b), which make it clear that cost is only one of the factors to be considered. Inasmuch as the Postal Service is not contemplating wholesale closings of post offices, the language on this subject which continually finds its way into the annual Treasury-Postal Service-General Government appropriations measure would appear superfluous.

## C. Employee Compensation and Career Advancement (39 U.S.C. 101(c)).

As an employer, the Postal Service shall achieve and maintain compensation for its officers and employees comparable to the rates and types of compensation paid in the private sector of the economy of the United States. It shall place particular emphasis upon opportunities for career advancements for all officers and employees and the achievement of worthwhile and satisfying careers in the service of the United States.

### 1. Collective Bargaining.

The Postal Service has ten collective bargaining agreements in force, three of which, covering nearly 653,000 employees, were determined by interest arbitration during Fiscal Year 1985. All of these agreements are for a three-year period except the rural carrier agreement which covers a three and one-half year period.

In April 1984, the Postal Service began negotiating jointly with the National Association of Letter Carriers and the American Postal Workers Union to replace a collective bargaining agreement which would expire on July 20, 1984, covering approximately 550,000 postal employees, most of whom were city letter carriers and postal clerks. At the same time, separate sets of collective bargaining negotiations commenced with the National Post Office Mailhandlers, Watchmen, Messengers and Group Leaders Division of the Laborers' International Union of North America for about 40,000 mailhandler craft employees and with the National Rural Letter Carriers Association for about 70,000 rural letter carriers. All three of these negotiations reached impasse in July 1984 and were ultimately resolved by resorting to the interest arbitration procedures contained in the Postal Reorganization Act.

Beginning in 1981, the Postal Service actively pursued the process of "slowly closing the gap" between the higher prevailing Postal Service wage levels and those paid for "comparable levels of work in the private sector of the economy" as required by the comparability provisions of the Postal Reorganization Act. The negotiated postal settlements and the four interest arbitration awards in the 1981-83 period generally reflected that realignment process. After reviewing the extensive labor market analysis conducted in 1983 and 1984, the Postal Service con-

cluded that the evidence overwhelmingly established that the 1984 round of collective bargaining must again address the issue of narrowing the calculated wage premium in order to achieve the comparability required by law and to serve the public interest in maintaining reasonably priced postal services.

The general national economic climate in which postal bargaining occurred in 1984 differed markedly from the past. By the early 1980s, world competitive forces were seriously eroding the market position of American "smokestack" industries. At the same time, changes were occurring in other American industries which historically had operated in a regulated environment in which wages and prices could be set without fear of any resultant loss in market share. With the introduction of competition prompted by deregulation, many firms in the railroad, airline, trucking, banking, and public sector construction industries were forced for the first time to control their expenses and increase their efficiency or literally be driven out of business. These underlying economic pressures of world competition and deregulation, coupled with a severe recession and lowering inflation, prompted structural realignment of labor markets and dramatic declines in wage increases in 1982 and 1983. The Postal Service reacted to the prevailing economic environment in 1984 and redoubled its efforts to emphasize service consistency and operational efficiency in order to keep postal prices down. Simply stated, the Postal Service opted to pursue a course designed to pare down its average labor costs to market levels in order to remain competitive with other forms of message delivery services.

These labor economic principles and the data on wage comparability were introduced into evidence and extensively argued before an Interest Arbitration Panel, chaired by Dr. Clark Kerr, which was convened to resolve the bargaining impasse in the clerk/city carrier bargaining units. The Kerr Award, rendered in December 1984, applied to nearly 550,000 postal employees and was the largest interest arbitration ever conducted in the United States. Its significance, moreover, goes far beyond the number of employees covered by its terms. After a full and fair litigation of the issues, the Kerr Award decisively rejected the unions' contentions that postal employees' wages should be tied to those of unionized workers in the private sector of the economy, that general wage increases in excess of $5,000 over the life of the contract should be granted, and that the postal cost of living adjustment formula should be increased. After full review of an extensive record made during seven days of hearings and several days of executive session that followed, the Kerr Panel concluded that ". . . discrepancies in comparability had emerged." The award adopted the Postal Service argument that, during the period since the passage of the Postal Reorganization Act, wage rates in the Postal Service had gone up substantially faster than those in the private sector. To facilitate the process of bringing postal wage levels into equilibrium with those prevailing in the private sector, the Kerr Award's approach to wages reflected a policy of "moderate restraint," defined as ". . . a slowing of wage increases as against the private sector, by one percent a year or for three percent in total over the life of this contract." Given the extent of the postal wage premium, Chairman Kerr stated, "Moderate restraint may also be necessary in future years to approximate the guideline of comparability as established by Congress." Finally, the arbitration award also sanctioned the introduction of lower starting wages for new postal employees as a further means of recognizing the comparability principle.

The principles of the Kerr Award were also adopted by Arbitrators Arnold Zack and Marlin Volz, respectively, in resolving the 1984 Mailhandler and Rural Letter Carrier interest arbitrations. In both cases union demands for large wage increases were rejected in consideration of the principle of "moderate restraint." After these three interest arbitration awards, the Postal Service reached voluntary contract settlements, consistent with the "moderate restraint" principle, with unions in bargaining units covering postal police officers, machinists, and personnel in the Postal Data Centers, Automatic Data Processing Centers, Mail Equipment Shops, Mail Bag Depository, and Supply Centers.

**2. Grievance and Arbitration.**

A comparison of the grievance activity for Fiscal Year 1985 with that for the previous fiscal year reveals that the total number of regional grievance appeals has increased by approximately 20.3 percent. There were increases in both contract and discipline appeals for all unions during the year. The most significant increase was in regional contract appeals by the National Association of Letter Carriers, the union submitting 22,456 or approximately 28.2 percent more appeals than during Fiscal Year 1984. During Fiscal Year 1985, grievance appeal activity at the national level increased by nearly 4.2 percent. Due to the delay in obtaining collective bargaining agreements with the four exclusive unions representing the vast majority of postal craft employees, it is not now possible to compare the resolution rates for local grievances filed under the new and recently expired contracts.

During the life of the 1981 collective bargaining agreements, the postal unions filed 54,690 regional appeals to arbitration, over 25,800 during Fiscal Year 1985 alone. This represents a total increase of 52 percent over the 36,073 regional appeals filed under the 1978 Agreements. Notwithstanding the significantly increased arbitration appeals activity over the term of the 1981 National Agreements, concerted efforts at all levels have resulted in only 23 percent of all regional 1981 appeals remaining open as of the expiration dates of the contracts. This compares favorably with the Fiscal Year 1984 results, when 38 percent of those filed through Fiscal Year 1984 remained open. At the national or interpretive level, only 301 or 27.5 percent of the appeals remained unresolved as of the same date. At the end of Fiscal Year 1984, 46 per-

cent of those cases filed at the national level remained open.

A significant job ranking issue was settled by arbitration during the year. An arbitrator determined that level 4 was the appropriate level for the recently created position of Mail Processor. The arbitrator further ruled that the creation of the position was consistent with Articles 1 and 19 of the National Agreement and that management was not required to bargain over the creation or craft assignment of new positions.

### 3. Personnel.

**a. Postal Career Executive Service.** The Postal Career Executive Service (PCES) includes the 35 officers of the Postal Service and 720 other executives. Of the total, 39 are women and 92 are minorities. During the fiscal year, 51 new executives were appointed to PCES positions. The PCES personnel system involves maintaining a list of viable candidates for executive positions. A total of 440 individuals were candidates at the beginning of Fiscal Year 1985. Candidacy, which can last a maximum of four years, expired for 90 of these individuals and 880 individuals applied or reapplied for places on the list in the coming year. All candidates were assessed under the same behavior-based methodology used during the two previous fiscal years, with final selections to be made in January 1986.

A second eighteen-month executive resources planning cycle was begun during the fiscal year as part of the Executive Resources System. The System interrelates forecasting, succession planning, development, and selections for executive job vacancies to ensure that first-rate managers are available to step into executive vacancies. Executives and candidates advise senior management of their career aspirations by developing Individual Career Plans. Management approved or revised these plans and indicated what developmental activities the Postal Service could offer to these employees over the planning cycle. During Fiscal Year 1985, the Postmaster General instituted affirmative action initiatives designed to increase the representation of women and minorities within the ranks of the Postal Career Executive Service. During the year, in recognition of the continuing responsibilities assumed by postal executives to improve service and make postal operations more cost-effective, an adjustment in executive compensation of 3.5 percent, retroactive to July 1984, was approved. (A similar adjustment, scheduled for July 1985, was postponed until the overall financial picture of the Postal Service improved.) A total of 107 postal executives were selected during the year to receive special achievement awards, ranging from $2,500 to $10,000, for extraordinary contributions to the Postal Service which deserved Service-wide acclaim. These contributions included major improvements or original developments in service, programs which resulted in increased savings, or noteworthy accomplishments in such areas as productivity, labor relations, and safety. The total compensation and benefits package for the Postal Career Executive Service is competitive with that offered to individuals in the Senior Executive Service, but lags behind compensation and benefits available to executives of corporations in the private sector.

**b. Postmasters.** Of the 27,790 postmasters on the rolls at the close of the fiscal year, 54 percent were women (13,674) or minority employees (1,332). During the fiscal year, 2,724 postmasters were appointed, including 762 local candidates, 1,321 women, 195 minorities, and 143 nonpostal employees.

All newly-appointed postmasters are expected to relocate within one year to the delivery or service area of the post office to which they have been appointed. When relocation presents serious problems, an appointee may request a waiver of this residency requirement. During Fiscal Year 1985, 539 waivers were requested, an increase of 19 percent over the previous year.

**c. Consultation With Management Associations.** In accordance with the procedures set forth in title 39, United States Code, section 1004(e), the Postal Service presented its initial compensation proposals to the three organizations representing its postmasters and supervisors on January 30, 1985. After considerable discussion, including a detailed response to proposals submitted by those organizations, a final management pay decision was reached in mid-March. The final compensation package consisted of a 3.3 percent general increase retroactive to July 21, 1984, with subsequent 3.2 percent general increases effective on July 20, 1985 and July 19, 1986, each of which is to be computed on the employee's base salary paid on the day immediately prior to the increase. The proposal also called for the continuation of the existing cost-of-living adjustment formula and an increase from 280 to 320 hours in the amount of annual leave which can be carried over to the next leave year. This pay decision essentially grants non-bargaining employees a 5.5 percent per year increase, consisting of general increases and projected cost-of-living adjustments, and ensures that adequate and reasonable differentials will be maintained between first-line supervisors and clerks and carriers, as required by title 39, United States Code, section 1004(a).

**d. Executive and Administrative Schedule.** Based on the findings of a survey conducted two years ago, the Postal Service introduced in 1985 the first component of a new system for selection of initial-level supervisors. Administrative procedures have been streamlined and new application and evaluation forms and performance rating guidelines were developed. Local management is given increased flexibility, and increased responsibility. The new system alleviates the problems of outdated evaluations by allowing recently eligible individuals increased opportunity to apply for supervisory positions. In addition, a revised performance appraisal system addressing problems identified in the survey will be implemented in Fiscal Year 1986. The new system will include

better defined rating factors and objectives and will clarify the expectations for employee performance.

Regional task forces were assembled during the year to incorporate survey findings into strategy development for the management Employee Involvement/Quality of Worklife process.

**e. Employee Involvement Process.** Field implementation of Employee Involvement/Quality of Worklife has continued steadily since the processes were introduced in March 1983. During Fiscal Year 1985, the number of National Association of Letter Carriers/Postal Service workteams nearly tripled and the process is active in twice the number of management sectional centers as last year. The process was expected to be offered to all remaining management sectional centers by the end of calendar year 1985. The National Post Office Mailhandlers' process now has quality circles at 31 management sectional centers, eight bulk mail centers, and one airmail facility. The National Rural Letter Carriers Association process has experienced similar growth, expanding from 20 to 31 management sectional centers.

In addition to a National Joint Committee, each of the joint processes now has a joint steering committee in each postal region. These regional committees are responsible for the diffusion and day-to-day health of the processes. Feedback from both management and craft people involved in the processes has, for the most part, been positive. Negative comments have generally centered around the perceived lack of immediate improvement in the labor-management climate when the processes are initiated in a facility. Two of the more significant substantive accomplishments of the processes have been improved communications and improved safety records. Work teams have also suggested revised operating hours to facilitate earlier mail delivery to customers, improved mail processing workflow, and improved training for new employees, and their activities have generally improved attitudes about fellow workers and work in general.

Management processes involving only non-bargaining unit people have been initiated at Postal Service Headquarters and a significant number of field locations. These management processes differ from the joint processes in structure, content, and leadership. Each officer, manager, or postmaster decides whether or not to initiate Employee Involvement within his or her area of responsibility and how the process will be structured.

Processes vary from those with steering committees and workteams or task forces with facilitators to those involving only leaders being offered skills development in how to create a more participative environment in the workplace. Additionally, leaders have held planning workshops with subordinates to determine how lessons learned from America's best run companies can be applied to the Postal Service.

**f. Selection and Testing.** A total of 81,045 career appointments were made during the fiscal year. With these appointments, the Postal Service closed the year with a total career workforce of 718,869, an increase of 5.2 percent from the Fiscal Year 1984 career complement. The number of individuals who took major postal entrance examinations during the year increased to 1,425,455, an increase of 36 percent over Fiscal Year 1984.

A new facility for the National Test Administration Center (NTAC) became fully operational early in Fiscal Year 1985, providing the Postal Service a fully automated state-of-the-art processing and scoring capability, including a stringent inventory control system which ensures strict accountability for test documents. This improved system complements the Human Resources Information System (HRIS) and has resulted in a significant reduction in the time and resources required in the overall testing cycle. It has also provided the framework for new program development designed to reduce the time and field resources necessary for hiring register maintenance and the administration of examinations. A total of 1,529,044 examinations were scored by NTAC in Fiscal Year 1985. The throughput in processing examinations was improved during the year from an average of 24 days for processing a test session to an average of 13 days.

The clerk-carrier examination was initially announced at St. Paul, Minnesota, under the open testing experiment (OPTEX) in July 1984. This method of selection is calculated to provide eligibles with a more realistic expectation of a job offer and to reduce hiring costs. On October 12, 1984, the applicant pool was randomly accessed to identify 50 percent of the applicants for testing. Of the 3,637 applicants scheduled for testing, 53 percent appeared and a hiring register consisting of approximately 1,800 eligibles was established. Applicants continue to be accepted and the Postal Service anticipates accessing the pool at least once more during the next 12 months.

The Postal Service is in the process of extending OPTEX to five additional sites, one in each region, all in large metropolitan areas. New York City has already been selected as a site and the Service announced the Distribution Clerk Machine examination at that office in late September.

**g. Equal Employment Opportunity.**

***(1) General.*** The Postal Service's Equal Employment Opportunity/Affirmative Action program made significant progress in Fiscal Year 1985, with a marked increase in the upward mobility of minorities and women. In April, the Postmaster General issued a six-point plan to ensure that qualified women and minorities would be seriously considered for executive positions. Under the plan, at least one minority and one woman candidate will be contacted and, if interested, will be interviewed and considered for the appointment. Executive screening and evaluation panels must now include at least one minority and, where possible, one woman. Senior man-

agers who report to the Postmaster General quarterly on the success of their operations must now also report on the progress of those minority or women executives under their jurisdiction. They also must now review the Individual Career Plans of minority and women executives to determine appropriate developmental activities, future job choices, and new areas of interest.

In May 1985, 65 EEO Specialists domiciled throughout the country completed a two-week training course. They will now concentrate most of their time on monitoring the recruitment, retention, and promotion of women, minorities, and handicapped employees, as well as eliminating barriers to upward mobility. Finally, the Postal Service began to streamline the complaint processing system to handle discrimination claims more expeditiously.

During the fiscal year, the Postal Service continued to utilize the Clark, Phipps, Clark & Harris study on postal employment practices and policies, particularly those observations relating to the perceptions held by Postal Service employees. In Fiscal Year 1985, the Postal Service emphasized improved human relations skills for managers and supervisors and attempted to increase all employees' awareness of the Postal Service's continued progress in the Equal Employment Opportunity/Affirmative Action program. The Service believes that current personnel and EEO systems adequately address employee concerns about discrimination and affirmative action. From the Postal Service's vantage point, further improvement can be achieved most effectively by making EEO a line responsibility of Postal Service managers. During the year, this definitive postal policy was constantly communicated to postal managers by senior postal management and by EEO professionals.

***(2) Affirmative Action.*** The Postal Service's affirmative action program yielded good results in Fiscal Year 1985, in part because affirmative action was given priority consideration during the year. EEO specialists from across the nation were given an intensive two-week training course designed to redirect their principal focus away from complaint processing to affirmative action. The increased attention to this vital subject was part of an overall thrust to tap the potential of employees and to provide for adequate representation for Blacks, Hispanics, women, and other minorities. In addition, each postal region held career awareness conferences at which interested employees, including women and minorities, could obtain information on opportunities for upward mobility. The management sectional centers also sponsored activities during Affirmative Action Week designed to contribute to career development and improve employee awareness of various ethnic and cultural backgrounds.

For several years now, the Postal Service has been marking the progress of women and minorities using applicant flow data; that is, the number and percentage of eligible employees in the applicant pool who applied for promotion. These data are used to assess underrepresentation in non-bargaining unit grade levels and to check whether a representative number and percentage of minorities and women apply for promotions. In cases where underrepresentation exists, further analysis is performed to determine the reasons. For example, the analysis may show that there is a barrier to upward mobility at a particular organizational level. If this occurs, a barrier analysis can be conducted and a specific strategy devised to eliminate the barrier. The applicant flow data for minorities and women in Fiscal Year 1985 represents an improvement over prior years. Of the 177,104 individuals who applied for promotions during the year, 64,428 or 36.4 percent were minorities and 55,205 or 31.2 percent were women. From this applicant pool, 26.6 percent and 30.5 percent of the promotions went to minorities and women, respectively.

In the total postal work force at the end of Fiscal Year 1985, 151,554 or 21.2 percent of all employees were Black, 60,197 or 8.4 percent other minorities, and 203,947 or 28.5 percent women. Of the 39,742 employees in levels 15 through 17, the initial job levels involving supervisory responsibilities, 8,950 or 22.5 percent were Blacks, 2,439 or 6.1 percent were other minorities, and 9,615 or 24.2 percent were women. In middle management levels 18-22, the year ended with a total of 16,650 employees. Of these, 2,146 or 12.9 percent, 946 or 5.7 percent, and 2,346 or 14.1 percent were Blacks, other minorities, and women, respectively. Levels 23 and above, the higher management levels, included 435 or 10.0 percent Blacks, 219 or 5.0 percent other minorities, and 302 or 7.0 percent women. All of these statistics are improvements over the previous fiscal year. The Postal Career Executive Service also saw improvements over Fiscal Year 1984. Currently, there are 68 Blacks, 29 other minorities, and 39 women in the ranks of postal executives or 9.0 percent, 3.8 percent, and 5.2 percent of the total, respectively.

This year, 7,254 handicapped individuals were hired. This represented 7.7 percent of all new career postal employees and marked the third fiscal year in a row in which the Postal Service exceeded its established hiring goal — this year's was 5.2 percent. In addition, the Postal Service continued to introduce the severely handicapped with targeted disabilities into the work force through its special noncompetitive hiring procedures. The State Divisions of Vocational Rehabilitation and the Veterans Administration played key roles in providing certified qualified applicants for positions identified by hiring managers. In Fiscal Year 1985, 1,340 such individuals were hired. At the close of the year, the Postal Service had 25,841 handicapped employees, representing 3.6 percent of the total work force.

***(3) Equal Employment Opportunity Complaints.*** During Fiscal year 1985, 37,907 complaints were resolved at the precomplaint counseling or informal stage. During the year, 12,870 formal complaints were filed, repre-

senting an 18 percent increase over Fiscal Year 1984. This is consistent with the general trend of the past ten years, during which the total number of complaints filed has increased from 17 percent to 31 percent per year except in 1980 and 1984 when the increases were four percent. Overall for the fiscal year, the average processing time for formal complaints was 235 days. Of those complaints that reached the formal stage, 58 percent were processed within 180 days. Approximately 75 percent of the formal complaint cases over 180 days old were under Equal Employment Opportunity Commission control over the course of the year.

In Fiscal Year 1985, the Postal Service continued its efforts to improve the EEO complaint processing system. The Service began revising the initial level training courses for EEO counselors and investigators and the merit performance evaluation system for EEO investigators. Both the new training courses and the evaluation system will be introduced next year. A concerted effort was also made to expedite the complaint system by introducing new techniques for processing EEO cases. For example, the regions began consolidating the assignment of EEO cases by complainant or facility, used specialty teams or review teams comprised of high level managers to handle the backlog of cases, and updated and increased the use of standardized forms to expedite the processing of routine cases.

In addition, the Postal Service introduced a new emphasis on educating and assisting managers. The Office of EEO focused its attention generally on training and assisting managers in the EEO complaints system by issuing an EEO Complaint Processing Guide for Postal Service Managers and an Affirmative Action Primer. Finally, the Postal Service devised statistical reports on the Equal Employment Opportunity/Affirmative Action program by which postal districts and regions can readily evaluate their progress against uniform performance indicators.

***(4) Litigation.*** As reported in last year's Statement, *Griffin* v. *Carlin*, a class action suit alleging discrimination in numerous aspects of employment at the Jacksonville, Florida Post Office, was pending before the U.S. Court of Appeals for the Eleventh Circuit. During this fiscal year, the Eleventh Circuit partially reversed on legal grounds a District Court judgment in favor of the Postal Service and remanded the case to the lower court for further proceedings on the issues of testing and plaintiffs' claims of disparate impact and intentional discrimination in details and promotions to initial level supervisory positions. The Court of Appeals affirmed the District Court's determination that the Postal Service had not discriminated in promotions to supervisory positions beyond the initial level and to non-supervisory positions, and had not discriminated in awards or discipline. The Eleventh Circuit has denied a petition for rehearing or rehearing *en banc* and the Postal Service has asked the Department of Justice to petition the Supreme Court for a writ of *certiorari*.

*Hampton* v. *Bolger* is a class action case alleging wide-ranging employment discrimination at the Pensacola Management Sectional Center in recruitment, hiring, work assignments, details, promotions, and discipline. The Postal Service has moved for dismissal or, in the alternative, denial of class certification and discovery sanctions. The District Court has ordered that a certification hearing be held at the earliest convenient time. However, no date for such a hearing has as yet been set.

Another case discussed in last year's Statement, *Contreras* v. *Bolger*, a class action suit brought on behalf of Hispanic applicants for entry level positions, was tried on February 25 and 26, 1985. At the conclusion of the plaintiffs' case, the Postal Service moved to dismiss, arguing that the plaintiffs had failed to prove that the written tests used to screen and rank applicants had an adverse impact on Hispanics. The court granted the Postal Service's motion and ruled that the clerk/carrier, mailhandler, and distribution clerk machine examinations did not have an adverse impact on Hispanics and that because Hispanics are hired by the Postal Service's Angeles District in proportion to their numbers on employment registers, these tests are not a "headwind" to minority applicants. Furthermore, the court found that Hispanic applicants who pass these employment tests are afforded and not denied employment opportunities.

Finally, in March 1985, the Equal Employment Opportunity Commission dismissed, on jurisdictional grounds, the appeals of 13 postal inspectors who received transfers to major cities under the Inspection Service Career Path Policy. These inspectors were directed to pursue their claim that the Career Path Policy discriminated against those 40 years of age and older under the Age Discrimination in Employment Act in federal court in Orlando, Florida, where *Netherton* v. *United States Postal Service*, a purported class action raising the same allegations, is pending. While a decision on class certification has yet to be issued, the court has directed that the parties be prepared for trial by March 31, 1986. In the meantime, an almost identical suit, *Arnold* v. *United States Postal Service*, has been brought in Washington, D.C. on behalf of 38 additional postal inspectors who would be in this class.

**h. Women's Program.** The Postal Service's Women's Program seeks to promote the recruitment of women into the workforce and to provide training, career development, and advancement opportunities for qualified female employees within the merit system. The Program's goals also include providing advice and information to postal management on issues which affect women's career development and upward mobility. The effects of the Program can be seen in comparative employment statistics. In November 1974, when the Program was established, women comprised 20.8 percent of the postal workforce. Six years later, 25.1 percent of all postal employees were women. Today, there are 204,868 woman postal employees or 28.6 percent of the total workforce. At the end of Fiscal Year 1980, women ac-

counted for 12.4 percent of the employees in levels 15 and above. Currently, 20.3 percent of the employees in those grades are women. During this five-year period, the number of women among the 35 officers of the Postal Service rose from one to five, and the number of women executives in the Postal Career Executive Service increased from 25 to 39.

During Fiscal Year 1985, approximately 2,850 women were promoted into or within levels 15 and above. This represents 25.9 percent of all of the promotions into those grades and compares quite favorably to the 18.0 percent promotion ratio at the end of Fiscal Year 1980. This year, eight women were promoted into executive positions, seven into PCES I and one into PCES II. A total of 1,318 women were promoted into postmaster positions, or 48.4 percent of the total promotions. Of these promotions, 173 were to level 18 and above post offices. These accounted for 19.9 percent of all of the promotions to post offices of that size.

During Fiscal Year 1985, there were over 100 career awareness activities held nationwide. These conferences have proven very successful as they provide employees with information on career growth, planning, and opportunities and serve as an excellent communication level between craft and management.

**i. Veterans' Employment.** Forty-seven and six-tenths percent of all postal employees are veterans and 29,839 or 31.6 percent of the 94,302 career and non-career appointments made during the fiscal year were veterans. The Postal Service also retained its position as one of the foremost employers of disabled veterans in the Federal Government. A total of 80,271 or 11.2 percent of the postal workforce are disabled veterans.

**j. Rehabilitation Programs.** During Fiscal Year 1985, the Program for Alcoholic Recovery (PAR) was expanded into an Employee Assistance Program to reach not only those employees troubled by alcoholism or alcohol abuse but also those needing help with drug problems. Almost 97 percent of all employees now have some access to the Program, with many taking advantage of the assistance offered. In the most recent period for which figures are available, 11,000 employees were participating in the Employee Assistance Program and approximately 50,000 employees had utilized it or PAR since the inception of these programs. A high percentage of those who sought assistance has successfully used Program services. To ensure continued Program effectiveness, supervisors and managers receive continuous field training in identification and referral techniques and are given similar training during supervisory training courses at the Postal Service's Management Academy. A new training program has been developed to provide supervisors with information on major drugs of abuse, the impact of alcoholism and drug abuse on the Postal Service, and interviewing and referral techniques. During April and May of 1985, all Program and medical personnel participated in drug abuse awareness seminars, and all Postal Service publications have highlighted the expansion of PAR into the Employee Assistance Program.

**k. Injury Compensation.** The general trend of workers compensation costs for Fiscal Year 1985 was up compared to the previous fiscal year. The total dollar amount paid by the Department of Labor (DOL) to active medical and compensation cases was $202.2 million in Fiscal Year 1985* compared to $183.3 million during the previous year. The total increase was due to additional medical costs and an acceleration in the number of active cases being paid. Increases in active cases reflected the rising number of injuries that occurred and were reported in Fiscal Year 1984. The Postal Service uses a computer model to forecast its future workers' compensation costs. The model computes an estimated future liability discounted to a net present value. Inasmuch as the model is based on the number of active cases on the rolls during the fiscal year and those cases increased in Fiscal Year 1985, the estimated future liability also increased to $2.9 billion. Total workers' compensation expense was $376.4 million for Fiscal Year 1985.

Active claims for medical and compensation cases numbered 74,548 for medical and 14,258 for compensation this fiscal year, a 3.4 percent increase and a 1.8 percent increase, respectively. The number of initial-year claims was 38,441 for medical in Fiscal Year 1985 compared to 39,401 the previous year. Active initial-year compensation claims increased to 1,318 this year from 1,218 cases in Fiscal Year 1984. Continuation of Pay (COP) costs were $19.9 million in Fiscal Year 1985. This was a 2.7 percent decrease over in 1984. Programs used to control COP costs include monitoring COP usage on a weekly basis, early intervention by Postal Medical Officers at the outset of the injury, and early return to work efforts through limited duty assignments.

The Joint DOL/USPS Rehabilitation Program and the Third Party Recovery Program have continued to be successful in reducing injury compensation expenses. During Fiscal Year 1985, a total of 641 employees returned to work, 237 were permanently reassigned, and 27,756 temporarily assigned to limited duty, yielding approximately $10.4 in additional annual savings. A total of $3.7 million was recovered for the Government under the Third Party Recovery program. The gross amount recovered under assignment by the Postal Service was $3.3 million, of which $1 million was for government recovery and $2.3 million was retained by employees. Please refer to Table 2 for statistics on this program.

Although most funds are recovered under the Third-Party program without resorting to litigation, several suits have been filed by the government in pursuit of assigned personal injury claims. However, a recent court decision may have an unfavorable impact on the future of the program.

*DOL (OWCP) Fiscal Year 1985 = July 1, 1984 to June 30, 1985

The Ninth Circuit Court of Appeals has ruled that the Postal Service has no equitable right to be reimbursed for continuation of pay that it has paid to injured employees, even if the employees recover lost wages from third-party tortfeasors. In refusing to uphold the Postal Service's claimed common law right of equitable subrogation, the court ruled that the right of reimbursement set forth in the Federal Employees Compensation Act is an exclusive remedy. While that provision authorizes reimbursement to the Government of "compensation" following third-party recoveries, continuation of pay is excluded from the statutory definition of "compensation." Though rejecting the Postal Service's equitable claim, the Court expressly stated that the Postal Service may assert, in other cases, whatever statutory right it might have to reimbursement for continuation of pay.

**TABLE 2**

**Postal Third-Party Recovery Program Statistics – Fiscal Year 1985**

| | Responsibility Retained by the Department of Labor | Responsibility Transferred to Postal Service |
|---|---|---|
| CASES HANDLED PRIVATELY | | |
| Number of Recoveries ..... | 62 | 1,761 |
| Amount of Government Recovery ..... | $214,105 | $12,534,242 |
| CASES ASSIGNED FOR GOVERNMENT HANDLING | | |
| Number of Recoveries ..... | 0 | 3,406 |
| Amount of Government Recovery ..... | 0 | $979,324 |

With the workers' compensation statistics showing an increase over the previous year, the Postal Service must explore new avenues to reduce costs and refine existing programs. Close coordination with the safety function in initiating aggressive programs to prevent accidents is one strategy to help curb these rising statistics. More detailed guidelines have been issued regarding the Rehabilitation program, limited duty assignments, and the hearing and review process. The handbook on injury compensation procedures has provided a useful reference tool for managing a more effective Injury Compensation Program. It was recently expanded in certain areas and updated to reflect changes in Department of Labor procedures. Despite budget constraints, training is still being provided at the local level. The use of Employees' Compensation Appeals Board decisions for more effective controversions has been highlighted. At the national level, participation in the Interagency Committee on Injury Compensation will provide an opportunity for the Postal Service to furnish input on the revision of Chapter 810 of the Federal Personnel manual, which governs the administration of the workers' compensation program throughout the government. This should improve the Service's ability to more effectively manage its program. During the year, further enhancements were also made to the automated Workers' Compensation Information System. Presently, 106 management sectional centers, all five regional headquarters, and national Headquarters can obtain on-line information on any workers' compensation claim filed by a postal employee. Information on case management, bill payment, and compensation payment are available from the system, which enables field personnel to initiate the prompt action required to better control claims.

**l. Ergonomics Program.** The Postal Service has established an Ergonomics Program to reduce accidents, injuries, and illnesses and to improve productivity and the work environment through the use of better workstation designs and work methods. An Ergonomics Advisory Committee has been formed to identify and prioritize areas requiring ergonomics study and improvements. During the year, design criteria were developed for the Computerized Forwarding System to ensure the maintenance of peak operator performance levels and for the computer hardware, software, and workstations for new retail equipment. Contractor assistance has been used for comparative measurements of operator fatigue and production levels at high-speed parcel sorters and for performing an evaluation of alternative methods of alphanumeric keying for multiposition letter sorting machines. To enhance the Postal Service's internal ergonomics expertise, 60 industrial engineers, medical officers, and safety officers have been trained in occupational ergonomics at the State University of New York.

On the safety side, a statement of work for contractor assistance has been issued for a multi-position letter sorting machine skills development program to teach improved keying techniques and related exercises. Early in Fiscal Year 1986, contractor assistance will be sought to design scientific strength and physical ability preemployment testing procedures. Also during the year, the Postal Service provided its criteria for computer hardware, software, and workstation design to the American National Standards Institute to assist in their development of standards for human factors engineering for video display terminal workstations.

**m. Automated Personnel System.** In 1985, the Postal Service implemented a Human Resources Information System (HRIS) which will bring automation and increased efficiency to the processing of personnel transactions and data at about 300 key locations nationwide. In addition to feeding employee data to the payroll system, which is already automated, the new system will help local personnel offices to track complement, speed the filling of job vacancies, automate the maintenance

and use of hiring registers, analyze accident and injury compensation data, track EEO performance, and perform many other personnel functions. It will also provide local access to automated personnel data, eliminate some paperwork, and reduce the amount of time spent on maintaining and searching through manual filing systems. At the end of Fiscal Year 1985, there were 26 sites using the first of eight planned subsytems of HRIS. Other sites are testing future modules of the system.

**4. Compensation and Benefits.**

**a. Pay Comparability.** The Postal Reorganization Act requires the Postal Service to maintain compensation for its employees comparable to the rates paid in the private sector. Historically, the Service has compared its pay levels to those firms in both unionized and non-unionized industries, including small, medium, and large firms throughout the country. When compared to compensation in the private sector, current Postal Service pay for bargaining unit employees greatly exceeds that paid by the private sector and by major industry groups. Table 3 graphically illustrates this conclusion. The collective bargaining agreements now in effect with the unions representing the majority of postal employees establish lower starting salary structures for those employees hired on or after January 19, 1985. These new starting rates range from 13 to 31 percent below the old starting rates. Because these lower starting salaries have been in effect for a relatively short period of time, the Postal Service does not yet have the experience or data necessary to determine what impact they will eventually have in reducing the overall wage premium now enjoyed by postal employees. At the close of Fiscal Year 1985, the average wage and benefits paid to bargaining unit employees were $29,621 per annum, of which $5,225 was attributable to benefits and premium pay.

TABLE 3

**Comparison of Gross Earnings Per Paid Hour for Postal Service Bargaining-Unit Employees with Those of Major Private Industry Groups [1] Fiscal Year 1985**

| Industry Group | Type of Workers | Gross Pay Per Paid Hour[3] |
|---|---|---|
| Retail Trade | Nonsupervisory | $ 5.99 |
| Finance, Insurance and Real Estate | Nonsupervisory | $ 8.01 |
| Services | Nonsupervisory | $ 8.06 |
| Wholesale Trade | Nonsupervisory | $ 9.34 |
| Manufacturing | Production | $ 9.54 |
| Transportation and Public Utilities | Nonsupervisory | $11.50 |
| Mining | Nonsupervisory | $12.04 |
| Construction | Nonsupervisory | $12.39 |
| Postal Service [2] | Nonsupervisory (Bargaining Unit) | $12.59 |

[1] Source: Bureau of Labor Statistics Employment and Earnings Series, October 1985.
[2] National Payroll Hours Summary Report, Accounting Period 13.
[3] Gross Pay Per Paid Hour = total pay (including premium pay for overtime) divided by total paid hours.

**b. Pay Compression.** Effective January 1985, the Postal Service increased the salaries of its officers by an average of 4.8 percent. This resulted in a salary of $86,200 for the Postmaster General and salaries between $68,700 and $81,200 for other officers. Subsequently, in light of the serious financial situation of the Postal Service through the middle of the fiscal year, the Postmaster General and all other postal officers took a 3.5 percent reduction in their salaries effective July 20, 1985. With this reduction, the salaries for these individuals were, on the average, 3.5 percent below the Federal Executive Schedule. Subsequently, when the financial picture brightened, officers' salaries were restored to the January 1985 level, effective September 28, 1985. Please refer to Table 4 for officer salary information.

A 3.5 percent increase, retroactive to July 21, 1984, was also granted to PCES I executives in 1985. However, another 3.5 percent increase, scheduled for July 20, 1985, was postponed pending significant improvement in the Postal Service's financial situation. As noted earlier, the financial position improved significantly toward the end of the fiscal year and the postponed increase was implemented on September 28, 1985. There still remains, however, a significant overlap and compression problem between the PCES I salary schedule and the salary schedule for mid-level management positions on the EAS salary schedule. PCES I salaries currently range from $53,600 to $68,000, while the EAS nonstep schedule ranges from $42,465 to $59,027 at the maximum of the grades. This continuing compression of salaries will make it more difficult to maintain internal equity between the various levels of job responsibility. In the coming year, the Postal Service will strive to implement measures to alleviate this compression to the extent possible within the context of budget constraints and the maximum salary limitation imposed by title 39 of the United States Code.

**c. Pay Administration.** During Fiscal Year 1985, the Postal Service complied with the Supreme Court's decision in *Franchise Tax Board of California* v. *United States Postal Service* by paying the administrative tax levies on employee wages at issue in that case and by honoring subsequently issued administrative tax levies on such wages throughout the country. The number of levies honored in Fiscal Year 1985 as a result of the Court's decision was 756. The Postal Service's general policy on debt collection and garnishment is, in the interest of minimizing postal costs and avoiding undue employer involvement in the personal affairs of its employees, to honor only those debt collection orders which the Postal Service is legally required to honor.

**d. Fair Labor Standards Litigation.** The only major unresolved lawsuits brought under the Fair Labor Standards Act involve approximately 16,000 city letter carriers who allege that their lunch time is compensable under the Fair Labor Standards Act. One case decided in favor of the Postal Service at the District Court level was recently affirmed by the United States Court of Appeals for the Sixth Circuit. Thereafter, counsel for these letter carriers petitioned the United States Supreme Court to review that decision. The Postal Service has opposed the petition. Another case has been continued pending resolution of this litigation.

**e. Overtime.** Overtime costs for the Postal Service totaled $1.96 billion for Fiscal Year 1985, or 1.6 percent less than the prior year. Overtime costs represented 8.1 percent of postal personnel costs. Fiscal Year 1985 marked the first year that the Postal Service was liable for penalty overtime of two times the base hourly straight time rate for certain duty and/or certain weekly workhour totals. Penalty overtime accounted for 5.1 percent of the year's total.

Overtime costs represented an acute management problem in the early part of the fiscal year. However, postal management took steps to control overtime usage as part of its overall program to stem mounting operational costs. The results of this effort were significant. Overtime usage was reduced 20 percent in the Third and Fourth Quarters of the year when compared to the previous year. The system-wide overtime rate as a percentage of total workhours dropped from a high of 10.3 percent at the end of the Second Quarter to 8.1 percent by the end of the year.

Postal management continues to believe that the proper use of overtime is often necessary to cope with fluctuating mail volume profiles and unscheduled employee absences and that overtime is often less costly in the long run than hiring additional employees. However, the Service has increased its use of part-time employees and has provided its supervisory employees with information systems to assist them in managing overtime usage. The Annual Staffing and Resource Management and Delivery Unit Volume Recording Systems are now available at most management sectional centers. The former is a scheduling and staffing model, while the latter obviates reliance on historical data. In addition, other automation efforts will provide managers with improved time and attendance data which should assist personnel management.

**f. Merit Performance Program.** During Fiscal Year 1985, 71,559 of the nearly 80,000 employees covered by the program were evaluated under the provisions of the step and regular merit processes. The percentage of eligible step process employees receiving increases was 90.6, while in the regular process it was 88.6 percent.

A revised Performance Evaluation Program covering nonbargaining unit employees in the step process will be introduced in Fiscal Year 1986. The new program is designed to help clarify management and employee expectations, provide for more consistent definition of levels of performance, and ensure a more comprehensive and reliable evaluation process. A training course for managing this program designed to provide approximately 24,000 managers, supervisors, and postmasters with new tools to assist them in their performance appraisal responsibilities will begin early in the year. The course should improve performance appraisal skills at all levels of the organization. While the new program focuses primarily on the 69,000 EAS employees in the step process, it will also improve the procedure for the 11,000 regular process employees. The early start on the program is calculated to permit early discussions about the new evaluation factors and benchmarks between managers and their employees. These discussions are a major focal point of the new process as they will provide both the evaluator and the subordinate with clear job-related performance expectations for the coming year.

In conjunction with the efforts to improve the performance evaluation aspects of the merit program, revisions to merit pay policies were also introduced. These revisions strengthen the merit pay concept and provide a reward system that further distinguishes between levels of performance, while recognizing that there should be greater performance expectations from those who have

**TABLE 4**

**Salary Schedule**
**Postal Officers and Career Executives**

**Postal Officers**

| Position | Salary |
|---|---|
| Postmaster General | $86,200 |
| Deputy Postmaster General | $81,200 |
| Senior Assistant Postmasters General | $75,100 |
| General Counsel | $75,100 |
| Chief Postal Inspector | $75,100 |
| Regional Postmasters General | $73,600 |
| Assistant Postmasters General | $72,300 |
| Executive Assistant to the Postmaster General | $72,300 |
| Deputy General Counsel | $72,300 |
| Judicial Officer | $68,700 |
| Treasurer | $68,700 |
| Consumer Advocate | $68,700 |
| **Postal Career Executive Service** | |
| Level 1 | $68,000 |
| Level 2 | $64,400 |
| Level 3 | $60,775 |
| Level 4 | $57,200 |
| Level 5 | $53,600 |

been in a particular job longer. In addition, the concept of lump sum payments was introduced for employees at the maximum of their grade. This is a significant change and provides a reward system for employees who, in the past, received no monetary recognition under the merit program. While the new policies will not be applied to step process employees until Fiscal Year 1986, they were used to determine the merit increases for the 11,000 employees in the regular process who were evaluated at the end of this fiscal year.

**g. Health Benefits.** There were several changes in the Federal Employee's Health Benefits (FEHB) program during 1985 which affected the Postal Service and postal people. Premiums for about 90 plans were less than they were in 1984 and five national employee organization plans added a new, lower cost standard option. An additional 32 Health Maintenance Organizations around the country joined the FEHB program and new benefits were added to some of the existing plans. The FEHB program's emphasis on cost-containment and cost-sharing measures resulted in a relatively small increase in health insurance premiums for 1985, the smallest since 1979. The increase in the Postal Service's FEHB contribution for Fiscal Year 1985, which totaled $933 million, was 7.1 percent over the previous year's total.

In 1985, the Blue Cross and Blue Shield Association made an unprecedented proposal to refund approximately $754 million to 1985 Service Benefit Plan subscribers, the Federal Government, and the U.S. Postal Service. The refund proposal was based on a surplus of special reserves held by the Association which resulted from cost-containment/cost-sharing measures and more prudent use of health care services by subscribers. The Office of Personnel Management has asked other plans to consider action similar to Blue Cross and Blue Shield, and six additional plans will make similar rebates.

**h. Life Insurance.** The Postal Service currently provides life insurance coverage to its employees under the Federal Employees' Group Life Insurance (FEGLI) program. Premiums for basic coverage, which is paid for by the Postal Service, decreased from $.33 to $.30 per thousand per pay period effective August 3, 1985.

The Postal Service has contracted with Williams, Thacher and Rand (WTR), a benefits consulting firm, to conduct a feasibility study to determine if a Postal Service Life Insurance Plan can be established to provide postal people, at a lower cost, equal or better life insurance coverage than that provided by the Federal Employees' Group Life Insurance Program. To assist in this effort, the Service compiled extensive demographic data on the postal work force and actuarial assumptions prepared by the contractor based upon that data have been approved.

Proposals have now been received from interested insurance carriers and a Technical Evaluation Committee comprised of representatives from several Headquarters departments has completed its work. Upon receipt and analysis of WTR's final report, the results of the study and recommendations will be submitted to senior management.

**5. Training.**

**a. General.** The Postal Service spent approximately $76 million on training, excluding the salary costs of those receiving training, during Fiscal Year 1985. This represents a smaller than expected increase in training dollars over the previous year due to the curtailment of courses during the last quarter of Fiscal Year 1985 at the William F. Bolger Management Academy. The Postal Service continued to place heavy emphasis on craft and supervisory training for new automated mail processing equipment, manual scheme and machine applications, for information systems operation and management, and for industrial engineering. More than 75 percent of all postal training was conducted by Postal Employee Development Centers located throughout the country.

**b. Craft Training.** All newly hired employees are given general orientation and appropriate training in their craft at Postal Employee Development Centers at the management sectional centers. General orientation is six hours, with a two-hour follow-up 21 days after initial general orientation. Craft orientation is usually of eight to 16 hours duration at the appropriate work location. Among the twenty general topics taught are time and attendance procedures, current operations, the code of ethical conduct, safety, the sanctity of the mail, and the appropriate image to present to the public. Craft training involves imparting the specific knowledge necessary for employees to successfully perform their daily responsibilities.

**c. Management Training.** During Fiscal Year 1985, the active resident course curriculum at the William F. Bolger Management Academy consisted of 81 courses. Course offerings for the year numbered 870. A total of 13,648 managers, supervisors, and specialists attended resident courses conducted by the Academy. On June 28, as a result of budget considerations, all resident training was curtailed through the end of the fiscal year.

During the year, initial-level supervisor training was completely redesigned. This new training program, called the Supervisory Training System (STS), will be validated in the First Quarter of Fiscal Year 1986, with implementation of training activities scheduled for mid-year. STS provides for an 80-hour program presented by the local Postal Employee Development Center immediately upon the promotion of an individual to an initial-level supervisory position. Called "Supervisory Basics," this part of STS provides training in the human relations, administrative, and functional skills needed immediately for on-the-job success. Approximately two to four months after promotion, the supervisor will attend the Management Academy for 80 hours of resident training entitled "Skills Building." This segment of STS divides the curriculum evenly between human relations

skills building and specific functional skills. The final segment of STS consists of a one-week resident course in "Supervisory Leadership" presented five to six months after the student has completed the "Skills Building" course. This capstone to the STS teaches advanced interpersonal, analytical, and problem-solving skills.

Other major programs of instruction were reviewed and updated during the period when management classes were suspended. One two-week course in Safety Engineering was added to the Academy's course of studies, as were five new procurement and four new human relations courses. Field validation of these classes will occur early in Fiscal Year 1986.

**d. PCES Training.** The U.S. Postal Service sponsors approximately 57 executives and candidates yearly to attend special management educational programs at universities throughout the country. Individual executives and Postal Career Executive Service candidates have the opportunity to express a desire to participate in these programs when they prepare their Individual Career Plans. With the benefit of an appraisal and recommendation from the person's immediate supervisor, Business Policy Committee members nominate individuals to the Executive Resources Board as part of the executive resources planning process. The Board then selects the participants, subject to their acceptance by the educational institution.

**e. Maintenance Training.** The Technical Training Center in Norman, Oklahoma, is a specialized facility for training maintenance technicians who are responsible for the repair and upkeep of postal equipment, facilities, and vehicles. New training courses for diesel engines, building systems operations, digital computer concepts, and bar code printers were offered this year. During Fiscal Year 1985, 14,000 employees received maintenance training at the Technical Training Center. Planned training during the Fourth Quarter of the year was reduced because of budget constraints, resulting in 1,400 fewer trainees than originally planned.

The Postal Service's two-year effort to obtain more adequate quarters for the Technical Training Center came to fruition this year. On April 2, the Board of Governors approved the request for a funding ceiling of $66.4 million to construct a new consolidated facility in Norman. In conjunction with planning for occupancy of the new facility, the Technical Training Center is preparing plans to offset growing requirements for resident training associated with new high-tech equipment and systems by decentralizing some courses. Over the next several years, and prior to facility occupancy, training in approximately 25 of the center's 97 resident courses will be shifted from Norman to the field. Training to be decentralized will consist principally of those automotive, retail equipment, and building-related courses which are least dependent upon dedicated space and equipment and best lend themselves to field presentation. Full operations in the new consolidated facility should begin by the Fall of 1988. The design and planning phases are currently on schedule.

**f. Correspondence Training.** Currently, over 2,000 postal employees are participating in correspondence programs. Many managers who are exempt from the provisions of the Fair Labor Standards Act continue to take advantage of available correspondence programs such as Report Writing for Managers and Administrative Management for Postmasters, reflecting a trend toward greater participation in correspondence training.

**g. PEDC Training.** More than 50,000 employees took coursework in the 182 Postal Employee Development Centers during Fiscal Year 1985. Approximately 200 courses are available through this national training network. A wide variety of subjects is offered including safety, revenue protection, craft skills training, mail classification, driver training, and supervisory courses. Among the new subjects introduced in 1985 were expediter, training, Optical Character Reader/Bar Code Sorter Supervisory Training, and Fire Brigade Training. The Computer Assisted Keyboard Training (CAKT) program was implemented in every site having multiposition letter sorting machines. Expansion of CAKT for other keyboard operating systems such as sack and parcel sorting and manual scheme training is the next phase under development.

**h. Postal Inspector Training.** During this fiscal year, 113 inspectors graduated from the inspector basic training course at Potomac, Maryland. The eleven-week basic training involves instruction in Postal Service and Inspection Service policy and procedures, audit procedures and postal laws and regulations. The curriculum also contains courses on sources of information, the judicial process, and investigative techniques. In addition, inspector trainees are given training in ancillary areas which will enable them to perform successfully as a postal inspector. Courses in public speaking, defensive tactics, physical training, report writing, and firearm qualifications are examples of this type of training. During the fiscal year, a computer familiarization course was added to the general curriculum.

**i. Management Associate Program.** The Management Associate Program was implemented in 1971 to develop knowledgeable, effective mid-level and upper-level managers. The program strives to identify postal and non-postal candidates whose education and work achievements indicate the potential for outstanding development. These individuals are challenged with a series of performance-oriented work assignments, supplemented by formal training experience, which require the associate to establish meaningful goals and assume the responsibility for achieving them. Throughout the program, the individual is continuously evaluated by his or her supervisor on each assignment and by the regional

management associate coordinator. The expected result of this training process is a manager thoroughly familiar with all of the major functional areas of the Postal Service at the installation, region, or Headquarters management level. Upon successful completion of the three-year program, the associate is placed in a mid-level management position.

Since 1971, approximately 200 individuals have participated in the program, of whom 134 were successful graduates, having been placed at or above the target grade levels upon completion of the program. Following the selection of 20 additional Management Associates in the spring of 1984, a decision was made to evaluate the program and strengthen the selection process before undertaking the next recruitment effort.

## D. Postal Cost Apportionment (39 U.S.C. 101(d)).

Postal rates should be established to apportion the costs of all postal operations to all users of the mail on a fair and equitable basis.

### 1. Postal Ratemaking Developments.

On December 11, 1984, the Governors of the Postal Service approved the recommended decision of the Postal Rate Commission in the sixth omnibus rate proceeding since postal reorganization. New rates became effective on February 17, 1985, including a 22-cent rate for the first ounce of First-Class Mail and an average rate increase of nine percent for all classes.

Following the issuance of the Governors' decision, five of the seventy-one parties who had participated in the hearings before the Commission filed petitions for judicial review. These petitions were consolidated into one case before the U.S. Court of Appeals for the Second Circuit in New York City. In a decision issued on December 3, 1985, the Court of Appeals unanimously rejected the challenges that the petitioners had raised. The Court upheld the position of the Postal Service with regard to every issue.

To implement the new rates and fees, postal regulations and postage rate charts in the Domestic Mail Manual were revised and a special Postal Bulletin containing excerpts from pertinent sections and rate charts from the Domestic and International Mail Manuals was printed and distributed to postmasters, some of whom received an additional supply for mailers within their areas of responsibility. In addition, mailing statements for bulk mailings of all classes of mail were printed and stocked in two area supply centers or distributed directly to post offices authorized to accept mailings of second-class publications. Managers and supervisors of Mail Classification Centers were trained in the new procedures called for in the rate package; for example, the new rate structure requiring mailers to pay a per-piece adjustment plus a per-pound rate for specific third-class bulk rates.

### 2. Mail Classification Developments.

**a. Aggregate Letter Rule.** The United States Court of Appeals for the 10th Circuit has upheld the Postal Service's interpretation of the Private Express Statutes against a challenge which could have had a seriously adverse effect on the use of presort First-Class Mail. At issue in this action, *American Postal Workers Union* v. *React Postal Services*, decided August 19, 1985, was an opinion by the Postal Service interpreting a provision of the Private Express Statutes as permitting the private carriage of letters by commercial presort bureaus incidental to their preparation for mailing at discount rates. The Court of Appeals reversed a decision of a District Court in Utah which had held that letters could not be privately carried, even to the post office for mailing, unless they bore postage in the amount that the originator of the letters would have paid if he had mailed them himself. While the practice directly challenged in this action involved the collection and mailing of letters of individual householders, which were primarily utility bill payments, this decision, if it had been upheld by the Court of Appeals, could have adversely affected the participation in the various presort programs of great numbers of business mailers whose own mail volume falls below the minimums required for discount rates. As a result of the decision of the Court of Appeals, these mailers can continue to obtain the benefit of the lower rates when their letters are combined with those of other small volume mailers for presortation and delivery to the post office, characteristically by a commercial presort bureau. Without the ability of the bureau lawfully to arrange for the private carriage of the letters to the post office, however, it would be virtually impossible for this practice to continue.

**b. Special Rate Fourth-Class Mail.** On May 18, 1984, the Postal Service requested a recommended decision from the Postal Rate Commission on proposals to expand eligibility for the special fourth-class rate to include computer-readable media containing prerecorded information, such as floppy disks, and books with at least eight printed pages, consisting primarily of children's books. The Postal Service advanced these proposals after a number of publishers pointed out that they could not include in their mailings all the books or book-like items that were being sent, but were instead required to separate out books of less than 24 pages and computer-readable media, since these materials were not eligible for the special rate that applied to the rest of the mailing. After considering the matter, the Postal Service determined that computer-readable media are used to convey much of the same information traditionally found in books, films, or sound recordings, all of which were then eligible for the special fourth-class rate, and that because of their orientation towards specific groups, such as young children, some books did not contain the 24 pages that were then necessary to qualify for that rate. Accordingly, the Postal Service decided it was necessary to update the Domestic Mail Classification Schedule.

After the request for a recommended decision was filed, the Postal Service joined with book and software publishers and other interested mailer groups in filing a settlement agreement with the Postal Rate Commission calling for a favorable recommendation on its proposals, and adding guides or scripts prepared solely for use with computer-readable material. On October 23, 1984, the Postal Rate Commission approved the settlement agreement, pointing out that the Postal Service had presented sufficient, unchallenged evidence to support its belief that the adoption of its proposals would further the goals of education, culture, and science by permitting materials which clearly promote those goals to be eligible for special fourth-class mail rates. On November 14, 1984, the Governors of the Postal Service approved the recommended decision and the Board determined that the approved changes would take effect on November 24, 1984.

These changes will make special rate fourth-class mail more attractive and convenient to customers and will provide better service to the public. Software publishers and distributors will be able to use this service for distributing their products, which frequently combine manuals in the form of books with the diskette or tape containing the computer program. Children's book publishers will be spared the administrative problem of having to distinguish between books with fewer than 24, but 8 or more pages, and those containing more than 24 pages. In addition, book clubs, which are advancing into computer software, will be able to continue to use the same mail service for their basic product area.

**c. Detached Address Labels and Second-Class "Plus" Issues.** Third-class bulk mailers and newspapers who compete with them for advertising revenues continue to contest each other's mailing practices before the Postal Rate Commission. Particular issues of contention have been the use of detached address labels for mailing third-class flats and the mailing of total market coverage (TMC) products at second-class rates. On October 4, 1983, the American Newspaper Publishers Association (ANPA) filed a complaint with the Postal Rate Commission challenging the current practice permitting the use of detached labels with third-class flats. The Postal Service considers that detached labels promote efficient mail processing because they are easier and less expensive to sort and case than their accompanying flats. The weight of the labels is included when postage on the total mailing is computed. The publishers, however, contend that the labels are separate mail pieces and should be charged accordingly. ANPA has been joined in its complaint by the Coalition of Nonpostal Media. The Postal Service's position is supported by several parties, including Advo-System, Inc., the Third Class Mail Association, the Direct Marketing Association, and the Association of General Merchandise Chains.

Following initial pleadings and settlement efforts, activity on the complaint ceased during the sixth omnibus rate case. The American Newspaper Publishers Association has made no further attempts to press its complaint. ANPA did, however, seek to have the Commission consider a separate rate for detached address labels during the rate case. The Commission denied this request because it would have interfered with timely completion of the case within the ten-month statutory limit, and noted that the Association was free to pursue its interests through the complaint case or by requesting that the Commission initiate a new classification proceeding. ANPA's appeal of this denial is pending before the Second Circuit Court of Appeals. ANPA was allowed during the rate case to present testimony on the effect of detached labels on overall costs for third-class mail.

On December 27, 1984, Advo-System, Inc. (ADVO) filed its own complaint with the Postal Rate Commission directed at some newspapers' practice of mailing so-called "Plus" issues containing large amounts of advertising material to all residents in a given geographical area on a regular basis. Advo contends that newspapers should not be able to mail "Plus" issues under the second-class permit held by the publication as a whole because they are designed primarily for advertising purposes and for free circulation, since they are distributed largely to nonsubscribers. Advo thus asserts that "Plus" issues should be regarded as issues of a separate publication, and that they should be required to qualify independently for second-class rates, or be mailed at third- or fourth-class rates. The firm contends further that even if "Plus" issues are considered part of the overall publication, they should not be eligible for subsidized, in-county rates. This position is supported by the Third-Class Mail Association, the National Newspaper Association, and several individual second- and third-class publications.

Advo is strongly opposed by the American Newspaper Publishers Association, as well as several large, urban newspaper chains and individual newspapers. These parties contend that a "Plus" issue is an integral part of a newspaper because it may contain local news, attract new subscribers, and provide advertising revenue necessary to support the publication as a whole. They argue that limitations on advertising content and distribution to nonsubscribers apply to the publication as a whole, and that new regulations which might limit their marketing flexibility should not be adopted. The Postal Service has filed a general denial of Advo's allegation that acceptance of "Plus" issues under a newspaper's second-class permit violates current regulations. On March 6, 1985, the Service published a notice of proposed rulemaking in the Federal Register for the purpose of receiving comments on new regulations which would limit the practice of mailing "Plus" issues by limiting second-class periodicals to one regular issue per day. No further action has been taken on these proposed regulations.

Attempts to resolve the "Plus" issue dispute currently are focused on the Postal Rate Commission. The Commission has before it a nonunanimous settlement proposal signed by the Postal Service, Advo, the Commission's Office of the Consumer Advocate, and several second- and third-class mailers. The proposed settlement would

allow additional second-class issues regularly published on the same day as another issue, subject to special limitations on advertising content, nonsubscriber distribution, the number of pages, and the use of the in-county rate. A tentative schedule has been set for the submission of stipulated facts and other evidence, to be followed by legal briefs and oral argument. No date has been set for a recommended decision by the Commission.

The potential effects of these disputes on the Postal Service cannot be assessed outside the context of the overall battle for advertising revenue. Should the newspapers prevail and succeed in excluding Advo and other bulk advertising mailers from a significant number of markets, third-class bulk mail volumes would decline appreciably. Should Advo succeed in limiting the use of second-class "Plus" issues, individual newspapers may choose to convert to a third-class total market coverage product or use a private delivery service for their "Plus" issue. Any prediction must be tempered by the realization that all parties involved will no doubt conceive of various additional ways to continue their competitive battle.

**d. Second-Class Eligibility.** In *The Enterprise, Inc.* v. *Bolger*, the Postal Service successfully appealed a ruling by a Federal judge in the Eastern District of Tennessee that the postal regulations requiring a general second-class publication to maintain a list of paid subscribers, and forbidding it to be primarily designed for free circulation, violate the First and Fifth Amendments to the Constitution. The plaintiff, publisher of a free newspaper originally mailed at third-class rates, contended that his publication should receive the same priority service and pay the same subsidized in-county rates as newspapers with paid subscribers. The plaintiff ignored regulations which would have permitted its free publication to be mailed at regular (unsubsidized) second-class rates, so long as it was primarily distributed to persons who had requested it.

On appeal, the Postal Service argued (as it had in District Court) that the challenged regulations specifically implemented the Domestic Mail Classification Schedule established by the Governors of the Postal Service, and thus lay outside the original jurisdiction of the District Court established by 39 U.S.C. section 409. The Sixth Circuit agreed with the Postal Service and held that under 39 U.S.C. 3628, a rate or classification decision of the Governors might be appealed only to a United States Court of Appeals. The Sixth Circuit remanded the case to the District Court, with instructions to dismiss the complaint.

The Court of Appeals decision is a significant milestone, but not yet the end of the road, for a series of "copycat" lawsuits have been brought against the Postal Service by various free third-class publications challenging the paid subscriber rule. The publisher of the *Enterprise*, for example, may seek review of the Sixth Circuit's decision by the Supreme Court. In addition, *Gulf Times, Inc.* v. *Bolger*, and *Times Publications, Inc.* v. *United States Postal Service*, are awaiting a decision in the Southern District of West Virginia and the Eastern District of Missouri, respectively. The dismissal of a third case, *Tri-Parish Journal, Inc.* v. *Bolger*, has been delayed in the Eastern District of Louisiana to allow the plaintiff to present an administrative complaint to the Postal Rate Commission concerning the fairness and equity of the paid subscriber requirement. The plaintiff's complaint is currently before the Commission, in P.R.C. Docket No. C85-2. Numerous associations of second- and third-class mailers have intervened in that proceeding.

**e. Third-Class Nonprofit.** Mailers have, for some time, requested additional entry provisions for special third-class authorizations when they wish to use a different printer or mailing house in another city. The *Domestic Mail Manual* has been revised to permit temporary additional entries for a period of one year to coincide with the length of most printing contracts. This temporary authority will expire on July 1, 1986 unless extension is deemed in the best interest of the Postal Service and its customers.

## E. Important Letter Mail Priority (39 U.S.C 101(e))

> In determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.

During Fiscal Year 1985, overall First-Class Mail service improved over the previous fiscal year, largely due to significantly improved Priority Mail service. Please see Chapter Two for specific information on service performance for all classes of mail. Presort First-Class Mail continued to grow at a healthy 12.1 percent rate to 16.2 billion pieces. This steady growth was due in part to the February 1985 increase in the presort discount to four cents per piece. In addition, presort service bureaus have been quite successful in obtaining presort volumes from customers who would otherwise not have been able to take advantage of the program. The users of the ZIP + 4 code benefited from an April 1985 decision to eliminate for one year the minimum percentage of ZIP + 4 coded pieces required in a combined ZIP + 4 Presort mailing. Service bureaus now have greater ability to submit ZIP + 4 mailings for their customers. The Postal Service also simplified the documentation required from a customer submitting a ZIP + 4 Presort mailing.

Domestic Express Mail Service and Express Mail International Service both remained strong entrants in the expedited delivery market, growing 2 percent and more than 19 percent, respectively. New in Fiscal Year 1985 were the Express Mail Corporate Account, a five-pound flat rate, additional collection boxes, and significant transportation enhancements, including a hub-and-spoke air transportation network, helicopter service in several metropolitan areas, and the extension of the hub-

and-spoke concept to surface routes. Expected in Fiscal Year 1986 are a special stamp for the five-pound rate, mobile acceptance vans for Express Mail, improved training, still more collections boxes for both street locations and building lobbies, and an expansion of the air transportation network. The Postal Service also will seek to improve its Electronic Marketing Reporting System to enhance its ability to isolate, diagnose and solve service problems. The Service is confident that it will attain its 98 percent on-time delivery standard and believes that Express Mail service is fully competitive with private offerings. Express Mail's published rates are lower than most other expedited package delivery services and merchandise and document reconstruction insurance is provided at no additional charge. It also offers the convenience of 40,000 deposit points, free forwarding, and delivery on weekends and holidays, and the guarantee of a full postage refund if service standards are not met.

## F. Transportation Policies

In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail and shall make a fair and equitable distribution of mail business to carriers providing similar modes of transportation services to the Postal Service. Modern methods of transporting mail by containerization and programs designed to achieve overnight transportation to the destination of important letter mail to all parts of the Nation shall be a primary goal of postal operations.

### 1. General.

That portion of the Postal Contracting Manual which concerns contracting for transportation services was revised during the Fiscal Year. The proposed changes, in draft form, are now being readied for review by senior management preparatory to their presentation to the Postal Contracting Policy Committee for final approval. Publication is scheduled for the Spring/Summer of 1986.

### 2. Domestic Transportation.

**a. Air Transportation.** For Fiscal Year 1985, 2.07 billion pounds of mail, an increase of 14.4 percent over the previous year, were transported by air at a cost of $711.1 million. Approximately 18 percent of the volume of mail moved by certificated air carriers was containerized. Compared to Fiscal Year 1984, the cost for air service increased $156.2 million or 28.2 percent.

On January 1, 1985, the Postal Service's air contracting system was activated concurrent with the sunset of the Civil Aeronautics Board. During the preceding months the hardware and software applications necessary to support the operation were designed, tested, and deployed. Due to the complexities of the system, only minimal, fully-integrated testing could be conducted prior to January 1, 1985, and several problem areas were discovered after the system was activated. Most of the problems with the support system have been corrected. The Postal Service is working with the contractors to rectify the remaining deficiencies. The air contracting support system enables the Postal Service, for the first time, to keep track of the time at which each sack or container of mail is exchanged between the Postal Service and an air carrier. This information makes possible more effective management of mail flows and enables the Postal Service to rapidly identify and take corrective action when the system reveals deficiencies in carrier performance. The Postal Service is now beginning to reap this benefit and to correct service and administrative deficiencies identified by the system.

Two types of contracts for the transportation of mail by air were solicited, negotiated, and awarded to some 67 air carriers. The first type is a "segment" contract under which a carrier is obligated to transport a guaranteed volume of mail between specified origin/destination city pairs within a specified time frame. The Postal Service has awarded approximately 5,000 segment "windows" under this type of contract. The unique features of a segment contract are that it guarantees the Postal Service lift capacity in return for a guaranteed minimum amount of revenue for the air carrier. The second type of air contract is known as a "system" contract. Under this plan, the Postal Service pays a uniform rate for transportation between any and all points on an air carrier's service network and has the right to board mail on scheduled flights with a priority after passengers and their baggage, but ahead of freight. The system contracts also provide another uniform rate for transportation of mail on a space available basis in certain markets. This lower rate is used selectively to save transportation costs where mail delivery performance will not be adversely affected by authorizing the carrier to hold the mail for a limited period of time before boarding. Approximately 25,000 city pairs are handled through system contracts.

Under both segment and system contracts, rates are negotiated separately with each carrier. In highly competitive markets, the Postal Service generally enjoys rates which are significantly lower than the rates charged for service in markets where there is little or no competition. System contracts are generally more costly than segment contracts because of the lack of a guaranteed volume of mail to be tendered to the carrier. Originally, the Postal Service had expected to transport greater quantities of mail under segment contracts. Although this is not the current experience and the major reason for the significantly increased costs experienced this year, the Postal Service continues to advertise for more segment contracts to replace existing system service. While several carriers have expressed some dissatisfaction with various aspects of the air contracts, acceptance of the system is favorable, by and large.

Air service within the State of Alaska continues under a regulated rate environment in accordance with the CAB Sunset Act of 1984, which extended regulation for a five-year period under the aegis of the Department of Transportation. The Postal Service and the Department of

Transportation are to report to the Congress in 1987 on the advisability of retaining or eliminating the regulation of air transportation rates for mail in Alaska. In a comparatively recent development in the lower 48 states, a two-year contract was awarded primarily for the movement of Express Mail between ten major markets through a hub operation located in Houston, TX. Lastly, problems regarding available lift still continue for the service to Guam. One of the two air carriers providing service from Honolulu has been grounded by the FAA recently.

**b. Rail Transportation.** In Fiscal Year 1985, the Postal Service dispatched 24 percent of the Nation's mail, primarily bulk business mail and fourth-class parcels, by rail. Rail carriers were paid $206.8 million for their services, with Conrail receiving $78.7 million of the total. These figures represent increases of 20.3 percent and 11.9 percent, respectively, over the previous year. Rail contracts negotiated after the passage of the Staggers Rail Act continue to yield significant reductions in mail transportation costs. Railroads also are evaluating their performance capabilities and increasing their use of intermodal type operations. In many cases the Postal Service is offered and able to take advantage of faster and more flexible service at reasonable costs.

The Postal Service and AMTRAK inaugurated a dedicated "mail train" operating between Washington, D.C. and Boston, Massachusetts, and serving intermediate points in the northeast corridor. There is possibility that such trains could operate between New York and Chicago. To date, the container program has been expanded to the point where only a few mail-carrying trains are not containerized. All AMTRAK mail-carrying trains will be containerized in the near future.

**c. Highway Transportation.** About 48 percent of the total mail volume moves over 12,000 highway contract routes. In Fiscal Year 1985, the Postal Service paid highway contractors $833.0 million, a 13.9 percent increase over Fiscal Year 1984. The Postal Service added an increased number of highway contracts during the year to ensure the timely delivery of Express Mail and second-class matter.

### 3. International Transportation.

**a. International Surface Transportation.** During Fiscal Year 1985, the Postal Service spent $16.1 million to transport 154 million pounds of surface mail. This represents a 7.2 percent decrease in volume over Fiscal Year 1985. U.S. flag carriers transported approximately 40 percent of all surface mail, about the same percentage as last year. The Postal Service uses the service of the U.S. flag carriers to destinations where such service is available at a competitive rate. Many foreign countries are not served directly by U.S. carriers. On some routes served by U.S. carriers the rates of service have not been competitive, and the Postal Service must use foreign carriers to hold costs to acceptable levels. To compensate for the poor surface transportation available, air service is provided for surface mail to Antigua, Barbados, St. Lucia, Guadeloupe, and Martinique.

**b. International Air Transportation.** International air mail transportation, unlike domestic service, was not deregulated under the CAB Sunset legislation. The CAB's function of setting rates for international air service was transferred to the Department of Transportation, which has continued the CAB's practice of setting uniform rates by broad geographical areas, namely transatlantic (Europe, Middle East, Africa), transpacific (Far East), Latin America, and transborder (Canada and Mexico). The Postal Service's authority to contract for international air transportation outside DOT's regulatory authority is restricted by statute to shipments of at least 750 pounds, of which no more than five percent may be letter mail. Beginning in 1980, the Postal Service instituted International Surface Air Lift (ISAL) service under which contracts were made with international air carriers for the transportation of publications and other bulk printed mail matter formerly transported as air freight. One million eight hundred thousand pounds of mail were transported under ISAL in 1985, 95 percent of which was carried under contract with U.S. air carriers. ISAL offers bulk mailers transportation which is competitive in price with the lowest cost air freight service available — generally offered by foreign air carriers — while increasing the market share of U.S. carriers in this type of cargo.

The Postal Service dispatches 93 percent of international air mail on U.S. carriers. It is the Service's policy to use American carriers whenever possible, using foreign carriers when no U.S. airlines provide timely service to the destination country, either directly or through an intermediate country. During Fiscal Year 1985, 63.4 million pounds of civilian international mail and 152 million pounds of military mail were airlifted at a cost of $145 million dollars. This represented a 7.2 percent increase over the previous fiscal year.

### 4. Containerization.

During the past year, the Postal Service made several changes in the area of containerization. The Service completed testing of a lightweight (10-ounce), plastic, managed-mail tray that will reduce overall package weight and offer savings in air transportation costs. This tray will be put into service in the Summer of 1986. Currently in development is a lightweight, managed-mail tray constructed of co-polymer, polyethylene and polystyrene foam. If tests are successful, this tray would weigh approximately six ounces. In addition to the new registered mail containers which were purchased during the year, all of the old containers are being modified with stronger, longer-life hardware requiring less maintenance. Containers used within bulk mail centers have been fitted with safety sideguards at two test facilities and show potential for reducing mail damage and possi-

ble injuries to employees. As a result of this successful test, the Postal Service plans to retrofit all containers.

Plastic mailbags have been introduced with a new plastic label and closure device which makes them easier to open and close. This device has been well accepted by both postal facilities and the major customers using the equipment. The Service is now testing plastic mailbags in international air service. The disposable mailbags used in international service have been modified to include a woven drawstring and a new label holder/closure device. Interestingly enough, a large amount of this "disposable" equipment is being returned by foreign postal administrations and can therefore be used several additional times.

The testing of the inter-bulk mail center slip sheet/stretch wrap movement of mail between two centers has been so successful that the program has been expanded to a third site. Finally, the Postal Service is conducting a study at its Engineering Support Center to develop a reduced cost, nestable pallet. This study is necessary due to the increased use of pallets to comply with presortation and other mail makeup requirements.

## G. Postal Facilities, Equipment, and Employee Working Conditions (39 U.S.C. 101(g))

**In planning and building new postal facilities, the Postal Service shall emphasize the need for facilities and equipment designed to create desirable working conditions for its officers and employees, a maximum degree of convenience for efficient postal services, proper access to existing and future air and surface transportation facilities, and control of costs to the Postal Service.**

### 1. Safety and Health.

The total number of accidents reported for Fiscal Year 1985 was 55,208, a 4.5 percent decrease from the 57,801 accidents reported the previous year. The total number of occupational injuries (not including first aid) was 33,034. This is a 7.3 percent decrease from Fiscal Year 1984 and a 14.0 percent decrease over 1983. Lost workday injuries totaled 19,678 during the fiscal year for a 9.3 percent decrease and a 10.6 percent decrease from Fiscal Year 1984 and Fiscal Year 1983, respectively. In the private sector, the lost workday rate was 3.5 in 1982 and 3.4 in 1983, compared to the Postal Service's 4.2 and 3.6. The Postal Service's lost workday frequency rate for 1984 was 3.3 and for 1985 was 2.9. No data is available on the lost workday frequency rates for the private sector for these years.

Line management responsibility for safety performance is continuing to take hold within the Postal Service. The line organization sets safety and health objectives and is responsible for providing safe and healthful working conditions. Supervisors receive continuous training in this concept and in good safety management practices. Management safety and health committees from the executive level on down develop safety and health initiatives and establish safety performance goals. The 1,350 joint labor/management safety and health committees meet regularly to review safety and health suggestions and rules, and to see that action is taken on hazard reports. Safety professionals continued to review early concept drawings and specifications for new facilities to help identify potential safety and health deficiencies at the earliest stage of development. New facilities are inspected annually. Larger and more highly mechanized facilities are inspected more frequently. The safety staff also suggests equipment changes to ensure a greater measure of safety in the workplace or on the job. The design of pedestal mounts for Neighborhood Delivery and Collection Box Units was improved to prevent tipping and multi-position letter sorting machines were equipped with a standard guard rail along the top to prevent maintenance workers from falling. Warning labels were posted on bar code sorters, optical character readers, and flat sorters to remind employees of the hazards of loose clothing and jewelry around the machines, clearance procedures, and proper tray removal methods.

Two important safety programs continued during the year. The Hearing Conservation Program includes workplace monitoring, identifying individuals for audiometric testing, providing baseline and annual tests to detect hearing loss, and providing a variety of hearing protective devices and instructions for their use. Under the Friable Asbestos-Containing Materials Control Program, inspections have been conducted in 33,000 facilities. In 1,200 of these, friable asbestos-containing materials were found. Controls have been implemented at over 800 of these facilities at a cost of $34 million. Air sampling is conducted of the remaining facilities to ensure that no violation of Occupational Safety and Health Administraton (OSHA) standards occurs and that no employees are exposed. Monitoring will continue as long as asbestos remains in place.

Postal safety and health training is provided for managers, supervisors, craft employees, employee representatives, and safety and health personnel. Additionally, the Postal Service and OSHA continue to work together to provide training at the OSHA Institute for postal maintenance and safety personnel. Several new training programs were developed or implemented in 1985. The Fire Brigade Training Program explains the importance of fire prevention to prospective fire brigade members and provides them with a minimum level of preparedness for containing or extinguishing fires in their initial stages. The Drug Abuse Awareness Training Program, which was attended by all postal physicians, nurses, and Employee Assistance Program personnel, explained the goals of the Employee Assistance Program and identified the major drugs of abuse; the physical, psychological and social consequences of drug abuse; and postal policies regarding drug abuse.

The Collateral Duty Safety and Health Officer Training Program was pilot tested during the fiscal year and will be available in Fiscal Year 1986. Designed for personnel

who have been assigned collateral safety and health duties in addition to their regular assignment, it explains the eight elements of the postal safety program and provides a basic safety background. A Principles of Safety Engineering course is currently being developed as an addition to the Management Academy's curriculum. Participants will be safety managers and specialists who have completed the basic safety training program and require more advanced training. Additional safety programs under development include drug abuse awareness for supervisors, counseling skills for Employee Assistance Program personnel, hazardous materials clean-up, and accident investigation for supervisors.

The Postal Employee's Guide to Safety was issued during Fiscal Year 1985 to provide employees with a pocket-sized summary of postal safety rules and regulations. Other safety awareness activities included the use of posters to stimulate employee interest in accident prevention, distribution of dog bite prevention and awareness kits to postmasters, and distribution nationally of special public service announcements to television stations asking for public support in controlling dogs and in providing safe access to mail receptacles during the winter season.

Motor vehicle accidents continue to be a leading source of serious injuries and fatalities, necessitating special training and awareness programs to promote defensive driving and the use of seatbelts and to recognize drivers for outstanding performance. During Fiscal Year 1985, the Postal Service, in conjunction with the National Safety Council, issued postal drivers approximately 153,000 annual Safe Driver Awards, and 270 Million Mile Club Awards for 30 years or one million miles of safe driving performance. Since newer drivers are disproportionately represented in the vehicle accident picture, more stringent driver selection, testing, and training procedures have been designed to ensure that the best possible drivers are selected. A study of postal driving tasks has begun and will be followed by the development of a unique postal driver training program. The Postal Service also revised its practices to require semi-annual observations of its drivers and has amended its evaluation form to include a list of driving practices.

A test of high-mounted brake lights is currently being conducted, using ¼- and ½-ton delivery vehicles in management sectional centers with significant numbers of rear-end collisions. An analysis of the test results will be completed early next year. To offset the rear-end collision problem with rural carrier vehicles, the Postal Service examined state laws on the use of flashing warning lights. In those states which require or permit such lights, postmasters have been asked to ensure or encourage, as appropriate, the use of flashing warning lights. In response to the Postal Service's initiative, four of the six states which originally prohibited the lights have agreed to allow rural carriers to use them. The Postal Service has begun another initiative which will hopefully culminate in a uniform flashing warning light code among the states. Also with respect to rural carrier operations, the Postal Service put 200 right-hand-drive jeeps on selected rural routes in an effort to address the problem of rural carriers sitting in the middle of the front seat while driving and delivering mail. Early indications are that, while the accident frequency rate for the test vehicles was almost identical to the rate for vehicles privately owned by rural carriers, the injury severity and property damage were less for the test vehicles.

On the night of October 15, 1984, a fire began in the middle and south end of the ninth floor of the Postal Service's Headquarters building. The cause of the fire has not been clearly determined but is believed to have been of electrical origin. Extensive damage was confined largely to that floor, although much of the rest of the building sustained water or smoke damage. Headquarters activities resumed within several days at various postal locations and in other Federal and private buildings, and most Headquarters functions were returned to their normal locations within several weeks. During Fiscal Year 1985, approximately $12 million was spent on cleanup and renovation. For the coming year, $9 million has been budgeted for the installation of a more sophisticated fire alarm and detection system and an automatic sprinkler system for the entire building.

**2. Architectural Barriers.**

During Fiscal Year 1985, the Postal Service adopted regulations providing for the implementation of the Uniform Federal Accessibility Standards document concerning which the Postal Service had reached agreement in the previous fiscal year with the Department of Defense, the General Services Administration, and the Department of Housing and Urban Development. The main effect of the document is to give federal contractors that design or perform work for different federal agencies a uniform way of complying with federal accessibility requirements.

The only action taken during Fiscal Year 1985 by the U.S. Court of Appeals for the Ninth Circuit in the pending *Rose* case, following the Postal Service's March 1984 petition for rehearing and suggestion for rehearing *en banc*, was to issue an order withdrawing the Court's February 1984 opinion from publication. The opinion, if left unchallenged, would have reversed a District Court decision upholding the Postal Service's legal view that buildings leased after 1976 are not required, when leased, to be remodeled in accordance with handicapped access standards. As explained in more detail in last year's Comprehensive Statement, the Postal Service filed the petition because the Postal Service believes that the Court's decision is legally in error and that its implementation would be harmful to the public interest. The Postal Service used the inconclusive status of the pending suit to initiate settlement discussions through the Justice Department with the plaintiffs' litigation representative. Following approximately six months of negotiations through these representatives, a settlement

discussion meeting was arranged with both representatives and actual parties present. This meeting led to the conclusion by both sides that their respective positions remain too far apart to justify continued settlement negotiations.

About one month following the close of Fiscal Year 1985, the Ninth Circuit Court of Appeals issued a one-page order, not designated for publication, which denied reconsideration or rehearing of the two main holdings of its 1984 decision and vacated on extremely limited grounds the third holding. The vacated holding was the part of the 1984 decision that would have awarded attorneys' fees to the plaintiffs. The grounds for vacating it were that an application for such an award should first be considered by the district court. The parts of the 1984 decision that would resolve the dispute to the substantial detriment of the Postal Service thus remain unchanged. Only the precedential effect of the decision has been altered, and then only if the decision should be kept unpublished by the Court, because the nonpublication of a court's decision normally prevents it from being cited as precedent for the decision of other cases.

The Department of Justice is considering whether to seek review by the Supreme Court of the Ninth Circuit's decision. The Department has filed a motion to recall the Court's mandate until a determination of whether to seek such review is reached.

The Postal Service constructed 229 new buildings in Fiscal Year 1985, comprising almost one million square feet of floor area. These new facilities are accessible to the handicapped. The Postal Service has also renovated numerous facilities to make them more accessible to handicapped persons. These renovations have been made primarily to meet demonstrated customer needs for improved access to specific postal facilities. Additionally, the Postal Service codified its existing policy of leasing or purchasing accessible buildings at every available opportunity when searching for new postal facilities.

**3. Environmental Program.**

It is Postal Service policy to assess the impact of proposed postal facility projects on the environment. This policy has proven beneficial by facilitating the selection of facility sites in areas where postal operations are compatible with the surrounding environment and the identification of measures which can be incorporated into facility designs to avoid or minimize adverse impacts on the environment. Normally, when an environmental study is required, the Postal Service prepares an environmental assessment for the facility project in question. The assessment process has enabled the Service to discover such environmental hazards as floodplains, abandoned landfills, and adverse geological or soil conditions early in the planning process, thereby enhancing the Service's ability to obtain suitable facility sites.

Over the years, the Postal Service has effectively complied with the National Environmental Policy Act of 1969. In general, such compliance has not interfered with the accomplishment of the Postal Service's mission. However, there have been a few instances in which compliance with the Act has delayed needed postal facility projects and the benefits anticipated from their completion. Currently, only one project—the Manhattan, New York, General Mail Facility—involves the preparation of an environmental impact statement, a more detailed document than the environmental assessment mentioned above. Due to a provision of the Act that allows the categorical exclusion of actions that normally do not require the preparation of an environmental assessment or impact statement, new construction projects containing 30,000 or less net square feet of space and other minor projects are exempt from the activities required by the Act. Except for projects involving an environmental impact statement, it is estimated that for the average project requiring an assessment, compliance with the Act adds about $10,000 to its cost and about two weeks to its schedule.

The Postal Service is now covered by several laws relating to the management and disposal of toxic and hazardous wastes, including the Hazardous and Solid Waste Amendments of 1984 and the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). These laws, and concomitant regulations promulgated by the Environmental Protection Agency, affect a variety of the Service's activities and cut across the responsibilities of many postal departments. As a result, an *ad hoc* group known as the Hazardous Waste Working Group, comprised of representatives from six departments at postal Headquarters, was formed at the beginning of 1985 to explore issues in this area and appropriately delegate responsibilities.

Significant planned or existing activities of the working group include attendance at national conferences on hazardous waste management and monthly meetings of the Federal Agency Roundtable. The members will also develop surveys to determine the types of hazardous materials stored and utilized at postal facilities and the number and location of underground storage tanks for petroleum products. The surveys will also seek to locate hazardous waste dumpsites and any PCB contaminated electrical transformers. The working group also is tasked with developing a management instruction on the standards for the installation of new underground storage tanks and the handling of hazardous waste, and with producing a maintenance bulletin for the management of PCB electrical equipment.

**4. Energy Management.**

**a. Energy Conservation Achievements.** Energy use in Fiscal Year 1985 was reduced by 4 percent in relation to Fiscal Year 1984. Postal Service energy use in relation to Fiscal Year 1975 has been reduced 27.2 percent, well ahead of the 20 percent reduction goal all Federal agencies had to achieve by this year. This reduction occurred even with severe winter weather conditions, extended operations to cope with mail volume increases, the increased energy demands of new mechanized and auto-

mated equipment, and an increase in the Service's facility inventory of over 2 million square feet. Continued strong management attention to the efficient use of energy and more efficient building design and construction achieved this reduction in energy usage.

**b. Energy Investment Program.** This program is designed to increase the energy efficiency of the 18,000 largest facilities where the Postal Service pays the utility bills. Energy retrofits are being installed in phases. The first two phases are directed at the largest 360 facilities and involve major retrofits in the lighting, heating, ventilating, and air conditioning systems. The first phase, comprising the 100 largest owned facilities was completed in April 1984. In Phase II, over 90 percent of the 260 facilities have been refitted, with the remaining facilities to be completed in 1986. With respect to the smaller facilities involved in Phases III and IV, more than 90 percent of the 17,500 facilities in these categories have implemented proven energy reduction measures from a standard checklist of simple repairs or replacement parts.

Efforts are underway to reexamine the largest postal facilities for additional energy and cost savings opportunities because many of these facilities were last audited in 1978 and useful new equipment and technology have been developed in the interim. Rather than establishing a new Energy Investment Program phase, steps are being taken to make energy audits and retrofits a part of the ongoing Repair and Alteration Program. In addition, specialized training is being developed to give auditing and construction personnel the benefits of the latest energy saving technologies.

In October of 1985, the Department of Energy presented its Federal Energy Efficiency Awards, three of which went to Postal Service organizations and individuals. The Design Management Division at Headquarters was honored for its commitment to cost-effective, energy-efficient design. Two specific projects – the Santa Ana, California General Mail Facility and the Mid-Island, New York Mail Processing Facility – were cited. The Design and Construction Division in the Southern Region received an award for its energy budget and design review process. A Postal Service Buildings Management Engineer in Bloomington, Minnesota received an individual award for his contributions to energy reduction, including the development of an energy audit procedure, a history of energy savings in the North Central district, and work on a book on Postal Service energy efficiency. The Federal Energy Efficiency Awards are further evidence of the progress in this field being made by postal people at all levels.

**c. General Energy Monitoring System.** This Postal Service-designed and installed system, using advanced hardware and software, has been installed in 142 facilities to prevent the operation of the building's environmental systems when they are not needed and to monitor electric power usage. System enhancements, such as outside environmental sensing and internal pressure and volume control, are being planned to increase its usefulness as a cost savings and management tool. The testing of new sensors began in 1985, with retrofit enhancement packages to be available by mid-1986. The system will then be deployed at other facilities and will be considered for new facilities in lieu of commercial systems costing several times as much.

**d. Model Post Office Program.** Seven Model Post Offices were subjected to thorough building surveys and computer modeling was then used to determine what major retrofits in their structure or mechanical and electrical systems were required. By the end of 1985, all model office retrofit installations will be complete. Plans have been developed to conduct post installation audits to determine retrofit effectiveness.

**e. Utility Rate Study.** The Postal Service has entered into a contract to analyze the utility bills, contracts, and rate structures of some 850 large facilities. All utilities – electricity, natural gas, water/sewage, and steam where applicable – are covered. The study's primary objective is to determine if the Postal Service is receiving the most beneficial utility service available. The analyses also will include recommendations concerning the actions which should be taken in the event of verified overcharges, changes in the type of service, fuel switching, or inefficient operational practices. The pilot program, completed in 1984, analyzed the bills in 50 facilities and achieved a savings of $55,000. First year savings from the follow-on program were $380,000.

**f. Energy Management Accounting System.** The Energy Management Accounting System is designed to automate the collection and reporting of monthly fuel consumption data for each postal facility and will provide facility managers with reports on inefficient operating trends and possible corrective action. The system will also provide a method for evaluating planned energy retrofits. The first phase of pilot testing began in March 1985, with completion scheduled for December 1985.

**g. New Facility Construction.** New facilities are being designed to stringent energy budgets while maintaining the quality of the employee work environment. Investments in new designs include energy efficient light sources and controls, daylighting, high efficiency heating, ventilating, and air-conditioning systems, high performance building shells, and off-peak thermal storage. The energy efficiency of new designs was analyzed this year by both micro- and mainframe computer energy analysis programs. Investments in energy efficiency this year have resulted in little or no increase in first cost, due to emphasis on investment trade-offs between various building components. For example, increased insulation can result in a reduction in the size of heating and cooling systems.

**h. Renewable Energy Systems.** Investments in renewable energy systems such as passive solar and geothermal have continued to be cost effective. The nationwide policy of requiring one in every ten new regional Postal Service-owned facilities to be a renewable energy project has been maintained. Nineteen additional medium-sized post offices meeting the established goal of at least 25 percent energy contribution from renewable energy strategies were completed in Fiscal Year 1985. A total of 60 postal buildings are included in the program, with 39 in operation. These buildings contain investments in passive solar heating, natural ventilation, increased inside air movement, use of free cooling through economizer cycles, thermal storage, and daylighting. In larger facilities, natural daylighting and the cooling of building mass and air through economizer cycles offer particularly good opportunities for energy efficiency.

Virtually all new postal designs consider some cost effective renewable energy approach, with the economics of particular applications depending upon building size, function, local fuel prices, and climate. The direct conversion of solar to electrical energy through the use of photovoltaic cells is in operation in one facility and the designs for two more such facilities have been completed. Geothermally-heated water is now supplying the complete heating requirements of the Klamath Falls, Oregon, Post Office.

**i. Coal Conversion.** Twenty-five of the 26 demonstration projects in the coal conversion program have been completed. The selection of sites was based on the availability of coal, facility space for coal equipment, and the avoidance of dependence on fuel oil. Coal supply, maintenance, and operational problems have been frequent. This demonstration program will continue for one more year so that definitive data from as many sites as possible can be obtained.

**5. Facility Design and Construction.**

The Postal Service manages an extensive real estate operation involving the design and construction of new facilities, improvements to existing facilities, and the installation of automated and mechanized mail processing equipment. The Postal Service is using standard plans for construction of the majority of its buildings under 5,000 square feet and an effort is being made to expand standardization to regional facilities of up to 15,000 or more square feet. In view of the potential advantages of the standardization program – including reduced design time, the high quality of construction, and energy conservation – preliminary cost benefit analysis and test installations are currently under consideration. Most of the Postal Service's design work is contracted out to consultants and architectural-engineering firms which are selected, based on their professional qualifications and experience, in conformance with the provisions of Public Law 92-582, the Brooks Act.

The consultants' work is based upon functional design drawings and specifications, provided by the Postal Service, covering postal building standards, operational requirements, energy efficiency, safety considerations, and handicapped accessibility standards, among other factors. Architectural and construction firms under contract to the Postal Service are held to strict compliance with all applicable federal, state, and local regulations. During construction, full compliance with Occupational Safety and Health Administration requirements is stressed, and periodic preoccupancy safety inspections are held. Prior to completion of each project, facilities are inspected by local safety and health personnel to verify full compliance with safety criteria.

The condition of Postal Service-owned facilities is the subject of a survey now underway nationwide. Simply stated, the study will focus on how well smaller postal facilities are maintained and whether the gains of the Working Conditions Improvement Program, begun soon after Postal Reorganization, have remained intact. There is also considerable interest in the effect that postal buildings have on the communities around them from both the aesthetic and Postal Service image points of view. Of particular interest is the attitude of customers and employees towards the various styles of architecture now being used in the Postal Service. A current study is examining how well the Service is meeting the needs of communities while retaining its commitment to cost reduction and energy efficiency.

**6. Intergovernmental Cooperation.**

With a real estate operation of nationwide scope, the Postal Service must be sensitive to community concerns over facility location and operation. It has been and will continue to be the Postal Service's policy to make early contact with state and local government entities in such matters and to maintain such contact until the project reaches fruition. The Postal Service complies with the provisions of Executive Order 12372 – "Intergovernmental Review of Federal Programs." The Order permits States, in consultation with local officials, to set up processes for reviewing and commenting on proposed federal projects. Federal agencies must either accommodate State and local views or state on the public record why they cannot do so. While these procedures appear to be working satisfactorily, the 65-day review period allowed the States constrains Postal Service actions on lease proposals and site acquisitions.

**7. Facility Siting.**

Subject to the availability of land and/or suitable sites, the selection of sites for postal facilities is most influenced by operational factors. These include, but are not limited to, customer and employee access, access from major transportation or intercity routes, local traffic patterns, and proximity to an airport and to other postal

stations, branches, annexes, or replacement facilities. From a real estate and engineering standpoint, sites should be of adequate size and configuration to accommodate the planned facility, located outside the floodplain, environmentally acceptable, and properly zoned, with suitable soils and topography, adequate utilities, and ready access to and from a primary traffic artery.

Communities are afforded opportunities to contribute to the site selection process. In addition to the intergovernmental cooperation process described earlier, the postal districts are required to notify local city authorities during the initial planning stage of the project of the intent of the Postal Service to construct a new postal facility. On larger regional and major facility projects over 30,000 square feet, an environmental assessment of the contending sites is made available for public review by placing notices in local publications. On projects of less than 30,000 square feet, local city officials are notified by letter of the location of contending sites and asked to comment in writing on the proposed use as a postal facility. If the location of a site meets with local opposition, public hearings may be conducted to fully explain the project to the local community.

**8. Facility and Equipment Maintenance.**

The Postal Service's maintenance organization improved its technical support capabilities during Fiscal Year 1985 by implementing an Area Technical Support Network. This network uses technicians with good troubleshooting skills and additional training to resolve problems on computerized equipment in a particular geographic area. This work also had the effect of decentralizing, and more efficiently using, maintenance expertise. The facility maintenance program has been strengthened with the addition of a position at management sectional centers dedicated to providing technical maintenance support to small associate post offices within that area. Position responsibilities include the monitoring of the small office preventive maintenance program, assistance in effecting building repairs, and advice to the small office Postmaster in dealing with a lessor.

New programs in maintenance and training techniques are being pursued to meet the future challenges posed by the addition of automated and computerized equipment and to minimize maintenance costs. These programs include a Computer Assisted Repair and Diagnostic Program, a prototype of which is now being evaluated, which uses computer and video equipment to train technicians on proper repair and diagnostic techniques, a Remote Diagnostic Program to explore the use of sensors to monitor equipment from a remote location, and a Predictive Maintenance Program to investigate the use of sensors to predict failures on various components. If successful, this last program would reduce those maintenance costs associated with periodic inspections and replacement parts.

**9. Historic Preservation.**

A total of 2,203 postal properties has been surveyed since the enactment of the Postal Reorganization Act and 214 have been nominated for inclusion on the National Register of Historic Places. During Fiscal Year 1985, 136 and 50 facilities were surveyed and nominated, respectively. In 1985, the Postal Service initiated major joint-use redevelopment projects for two historically significant postal facilities – the Washington, D.C., City Post Office and the St. Paul, Minnesota, Post Office property. In both cases, final project design will be coordinated with the respective State Historic Preservation Office and the Advisory Council for Historic Preservation.

**10. Real Estate Management.**

**a. General.** The 4,388 facilities owned by the Postal Service comprise over 113 million square feet of interior space and 368 million square feet of exterior space and have an investment value of $6 billion. The Postal Service also leases 29,678 facilities containing 91 million square feet at an annual rent of $294 million. Of these, 287 are leased from the General Services Administration and contain 5.7 million square feet of interior space.

**b. Real Property Disposal.** In Fiscal Year 1985, 35 excess properties were sold for a total of $4.7 million. The Postal Service's program to lease surplus space in postal facilities produced $31.4 million in income during the fiscal year, 20 percent of which came from nonfederal tenants.

**c. Tax Reduction Program.** In accordance with the terms of its leases, the Postal Service pays general real estate taxes on some 9,000 privately-owned properties leased for postal use. In Fiscal Year 1985, the Postal Service paid in excess of $50 million in such taxes. Tax liabilities and assessments on these properties are actively monitored and audited. In Fiscal Year 1985 the Postal Service handled 640 tax and assessment cases. Three hundred sixty-two assessments were challenged before assessors, assessment review agencies, and/or in the courts. The Postal Service realized over $2 million in direct first year savings as a result of these challenges. A project to establish comprehensive surveys and evaluations of all leased postal facility tax assessments on an annual basis is in process.

**d. Developmental/Joint Use of Real Estate.** Fiscal Year 1985 was the first year in which the Postal Service saw activity in all phases of this relatively new program. A long-term lease with an aggregate income anticipated to exceed $3 billion over its 65-year term was executed for the Rincon Annex property in San Francisco. The Service is also nearing completion of a lease for its property adjacent to the New Orleans Superdome and a contract for a mixed use/joint occupancy project at the location of the Ansonia Station in New York City was

executed. The Honolulu project mentioned in last year's Comprehensive Statement is in the design phase, with construction scheduled for Fiscal Year 1986, and two projects in New York and Dallas are in the negotiation stage. Additionally, a request for proposals for the Washington City Post Office was issued, with evaluation, negotiation, and contracting scheduled for Fiscal Year 1986.

**e. Contract Real Estate Service.** In Fiscal Year 1985, 60 basic real estate term contracts were awarded by the Postal Service. This program is expected to expand throughout the country as the Postal Service moves to supplement its regional and field real estate offices.

**f. Relocation Assistance.** The Postal Service continues voluntarily to comply with the Uniform Relocation Assistance and Real Estate Property Acquisition Policies Act of 1970 by providing relocation assistance in connection with the acquisition of certain properties. New Postal Service relocation regulations, based on the government-wide model rule, were published as a proposed rulemaking in the *Federal Register* on May 28, 1985. However, the new postal regulations differ in some respects from the model rule by emphasizing the Postal Service's policy not to pay relocation assistance to owners who voluntarily sell their properties to the Postal Service and generally not to pay relocation assistance to former tenants when the Postal Service succeeds to tenancy in space leased under open market conditions.

The new regulations are expected to be published in final form and go into effect before February 28, 1986.

**11. Procurement.**

**a. Approved Sources and Systems Purchasing.** Approved sources is a purchasing method in which commercially available items which are purchased regularly can be ordered directly from vendors who have had their products tested and approved against Postal Service requirements. The Postal Service negotiates a national buying agreement with the vendor, which then governs the conditions and prices that apply to future purchases. The Service follows competitive procurement practices to establish these agreements. Thus far, approved sources procurement has been established for custodial floor products and small telephone systems.

Cost savings from approved sources will come from better use of national buying power to obtain discounts, closer attention to product quality and value, reduced procurement costs, and the elimination of storage and distribution expenses. Program savings could amount to $20 million a year, or 10 percent of current commercial item expenditures. Additional program benefits are the ability to simplify repetitive procurements and obtain the benefits of centralized buying while retaining decentralized ordering and purchasing authority.

Systems purchasing has been used by companies of every size as an effective means of acquiring supplies for daily activities. It differs from approved sources, which typically deals with a single commodity, in that it covers a range of commodities such as office or computer supplies. The Postal Service will enter into contracts with nationwide distributors of such supplies to accept orders and deliver supplies directly to its facilities. By doing so, the Postal Service transfers all the costs associated with the storage, inventory, and distribution of such supplies, which are currently handled either in-house or by the General Services Administration, to the contractor. Since the contractor is an "expert" in managing this process, it is expected that savings will result. In addition, the Postal Service obtains a number of other benefits from these procedures. The Service can expect better information feedback and control over purchases and a faster turnaround for orders. It will also be able to use its national buying power to obtain better discounts, as was the case with approved sources, and to simplify its payment and accounting systems.

The Postal Service is currently testing this new concept and has entered into a contract with Boise-Cascade to provide office supplies at five test locations. The test will be carefully monitored and, if successful, will be considered for other commodity areas.

**b. Supply and Spare Parts.** The Supply Management Subsystem, previously called the Inventory Control Subsystem, is a management information system providing for inventory control, distribution, and replenishment of stock in response to local demands. It will include forecasting, technical management, inventory management, warehousing and distribution, and preparation for acquisition. The system is expected to be operational by mid-Fiscal Year 1987. When fully implemented, it is expected to save in excess of $70 million. In addition to reducing costs, the Supply Management Subsystem will provide a reduction in stock levels on hand, a more responsive and systematic supply management system with increased accountability, and a way to eliminate excessive paperwork.

**12. Small and Minority Business Programs.**

In Fiscal Year 1985, the Postal Service fulfilled its commitment to increase small business and minority business enterprise involvement in the procurement process. It continued its Outreach Program, an active search for small and minority-owned firms capable of obtaining their fair share of the procurement dollar, and participated in business opportunity conferences. Under Outreach, the dollar amount of awards to small businesses rose from $1.3 billion in Fiscal Year 1984 to over $1.7 billion in Fiscal Year 1985. Small Businesses received 68 percent of all USPS contracts during the current fiscal year. Please refer to Table 5 for information on small business contract awards.

TABLE 5

Small Business Awards

| Fiscal Year | Dollars (millions) | Percent of all $ |
|---|---|---|
| 1980 | 739 | 60 |
| 1981 | 1,510 | 87 |
| 1982 | 954 | 72 |
| 1983 | 1,200 | 76 |
| 1984 | 1,209 | 71 |
| 1985 | 1,711 | 72 |

TABLE 6

Minority Business Enterprise Awards

| Fiscal Year | Dollars (millions) | Percent of all $ |
|---|---|---|
| 1980 | 77.6 | 6.3 |
| 1981 | 93.1 | 5.4 |
| 1982 | 98.8 | 7.5 |
| 1983 | 115.6 | 7.3 |
| 1984 | 139.1 | 7.4 |
| 1985 | 237.9 | 10.0 |

Minority business enterprises received 8.6 percent of all contracts in Fiscal Year 1985, up from 8.3 percent the previous year. Awards to minority businesses rose $99 million to $238 million this year – an increase of 59 percent over Fiscal Year 1984. Please refer to Table 6 for information on minority business contract awards.

# CHAPTER II

# POSTAL OPERATIONS

## A. PUBLIC PERCEPTIONS, CUSTOMER OUTREACH, AND OVERSIGHT.

### 1. Public Opinion.

The results of semi-annual national surveys of household customers are used by the Postal Service to track trends in consumer attitudes. The most recent study, conducted in April 1985, continues to show generally favorable attitudes toward the Nation's postal system. In the survey, 81 percent of the general public reported having an overall favorable impression of postal services, up from 80 percent a year ago. Ratings of service provided to a sender of mail were 50 percent favorable, compared to 47 percent a year ago. Ratings of service from the perspective of a receiver of mail follow the same pattern—55 percent favorable in April 1985, compared to 52 percent in April 1984. The sender and receiver ratings are at the highest points since the study began in April 1973. Overall favorability is equal to the highest prior rating, achieved in October 1981.

First-Class postage rates in the United States remain among the lowest in the industrialized nations of the world. (See Table 7).

TABLE 7

**Selected Foreign Postal Rates Compared With United States Rate**

| Country | Rate for First Unit of Domestic Letter Postage (National Currency) | Postage Converted to U.S. Cents* |
|---|---|---|
| 1. Norway | 2.50 Krona | 31.3 |
| 2. Germany (Fed. Rep.) | .80 Mark | 29.8 |
| 3. Japan | 60.00 Yen | 27.7 |
| 4. France | 2.10 Franc | 25.7 |
| 5. Canada | .34 C $ | 24.8 |
| 6. Italy | 450.00 Lira | 24.8 |
| 7. Sweden | 2.00 Krona | 24.8 |
| 8. Austria | 4.50 Schilling | 23.8 |
| 9. United Kingdom | .17 Pound | 23.7 |
| 10. Australia | .33 A $ | 23.2 |
| 11. Netherlands | .70 Guilder | 23.1 |
| 12. Switzerland | .50 S. Franc | 22.7 |
| 13. Belgium | 12.00 B. Franc | 22.0 |
| 14. U.S.A. | .22 US $ | 22.0 |

*Foreign exchange rates prevailing on September 30, 1985 *The Washington Post*, October 1, 1985.

The quantitative household study initiated by the Postal Service in Fiscal Year 1984 provided a benchmark for consumer attitudes and perceptions concerning a broad range of topics and issues. A total of 34 percent of the consumers reported a very favorable impression of the Postal Service, while 44 percent reported a somewhat favorable impression. The most recent Roper Report, based on a national probability sample of 2,000 adult men and women, also reflected that consumers were satisfied with their mail service. Of those questioned, 48 percent reported complete satisfaction, which is an increase from 44 percent in August 1982, and equals the high level set in 1975.

### 2. Private Studies.

As in past years, the Postal Service remains an object for scrutiny by private interest groups who support various economic and social points of view. During the year the CATO Institute, a public policy analysis organization, published two articles criticizing the operations of the Postal Service and calling for the repeal of the Private Express Statutes which give the Postal Service the exclusive right to carry "letters." Both articles, one of which contained a great deal of dated and thoroughly inaccurate information about the Postal Service, completely ignored the fundamental issue in the Private Express debate, whether the American people want universal postal service at uniform rates, and failed to resolve the numerous practical and logistical consequences of their original theses. In summary, neither article added to the body of knowledge available on the Postal Service nor raised the discussion of the Private Express Statutes beyond the purely theoretical.

### 3. Customer Complaint Analysis.

Recorded customer complaints declined during Fiscal Year 1985 despite increasing mail volume. The Postal Service received a total of 377,858 consumer complaint cards, a 11.6 percent decrease below the previous year. The higher card volume in Fiscal Year 1984 was related to the All Services advertisements which encouraged customers to use the cards to communicate with the post office. Complaints alleging non-receipt of mail accounted for the largest decrease in the percentage of complaints recorded, falling from 21.4 percent to 17.6 percent. The most commonly cited complaints and their frequency are depicted in Table 8.

Service and product improvement projects continued during Fiscal Year 1985 as a result of the analysis of Consumer Service Cards and other customer comments by the Office of Consumer Affairs at Postal Headquarters. Projects completed this year included improved processing and delivery of Business Reply Mail, telephone access to the Office of Consumer Affairs for the hearing

TABLE 8

Most Frequent Complaint on Consumer Service Cards

| Major Complaint Type | Consumer Service Card Report |
|---|---|
| Delay | 72,494 |
| Nonreceipt | 53,639 |
| Misdelivery | 51,160 |
| Change of Address | 30,606 |
| Personnel | 14,657 |
| Improper Return | 12,898 |
| Damage | 10,283 |
| Window Service | 8,850 |

impaired, an update of the *Consumer Answer Book* used in responding to customer inquiries, Consumer Service Card Program revisions, and Consumer Satisfaction Surveys. Projects nearing completion include tests of adjusted hours of window service to better meet community needs, a postal service information kit to provide local information to new delivery points, and a recorded telephone message system to provide customers with 24-hour-a-day, 7-day-a-week access to postal information. Recognizing the importance of accessible and accurate information, the Postal Service updated the *Consumer's Directory of Postal Services and Products* for publication early in Fiscal Year 1986. Print advertising was used to increase customer awareness of the Consumer Service Card Program.

**4. Customer Outreach and Mailer Liaison.**

**a. National Postal Forums.** The National Postal Forum is a nonprofit educational corporation created in 1967 to improve postal services by fostering a close working relationship between postal management and business customers. National Postal Forum XX will be held in September 1986 at the Washington Hilton Hotel with the continuing theme of "Partnership for Progress." Although plans have not been made final at this time, no major changes in the format are contemplated. The five regional Forums held during 1985 attracted a total of 6,461 registered delegates. Three hundred thirty companies exhibited 570 displays of postal-related products and services – a five- percent increase over 1983, the last time regional forums were held. The business sessions highlighted mailroom management, ZIP + 4 coding, automation, expedited mail, and international mail.

**b. Mailer Liaison.** Day-to-day contact with over 400,000 major commercial customers is provided by customer service representatives (CSRs). This group of sales and service professionals provides a direct link between the Postal Service and its major business mailers for selling postal programs and servicing customer needs. Basically, they act as account managers, developing and implementing account management plans for their commercial customers. In addition, they conduct meetings and seminars for Postal Customer Councils, which have facilitated communication between local postal customers and local management for over 20 years. During Fiscal Year 1985, the number of active Postal Customer Councils increased about 20 percent to over 275 councils, with an estimated 80,000 individual members. The Councils' programs represent the major interests of the members and topics discussed in Fiscal Year 1985 included tips on the proper preparation of all classes of mail, the new features of Express Mail service, and the benefits of the ZIP + 4 code program. Most councils meet semi-annually, and during the year there were over 600 group meetings and seminars with more than 200,000 customers in attendance.

This same type of dialogue between Postal Service management and its major customers took place on the national level during the four quarterly meetings of the Mailers' Technical Advisory Committee (MTAC). Now in its twentieth year of operation, MTAC is made up of 41 member associations or organizations representing all major mail-related industries in each of the classes of mail. MTAC provides information, advice, and recommendations to the Postal Service on the technical aspects of the introduction of mail into the postal system, its processing and transportation, and delivery to its destination. As a result of MTAC suggestions, during Fiscal Year 1985 the Postal Service relaxed several requirements of the ZIP + 4 code program, began work to enhance its parcel delivery service, and improved the delivery standards of periodicals. Still under consideration is an MTAC request for the Postal Service to modify certain requirements for Business Reply Mail.

**c. Key Industry Program.** Established in 1984 to learn more about how certain industries use postal services, the key industry program continues to focus sales and service attention on the banking, insurance, publishing, mail advertising, printing, and securities industries and on institutions of higher education. In Fiscal Year 1985, emphasis was also placed on state and local governments for the first time.

Support was given at all levels of the organization to implement the ZIP + 4 code as a cost savings tool for this customer group. Senior postal management met with numerous government entities during the year, resulting in conversions to the ZIP + 4 code by a number of state and local governments, including California and New York. Representative companies in the utilities industry began active participation in the ZIP + 4 code program during Fiscal Year 1985. Additionally, a major planning effort was initiated to coordinate a national program involving billings for long distance telephone service and to bring this new volume into the postal system as ZIP + 4 code discount mail.

The key industry program also introduced an account management concept for internal account identification

and strategic planning. In addition to targeting industry segments for concentrated sales attention, the account management program offers the opportunity to identify and classify major accounts into the key industry segments. Through this kind of in-depth industry segmentation procedure, industry marketing plans can now incorporate account sales plans for the major accounts that comprise each industry segment.

**d. Advertising and Marketing.** Advertising is one of the Postal Service's vital marketing tools. The most aggressively advertised services are ZIP + 4 coding and Express Mail Service. ZIP + 4 code advertising concentrates on encouraging large-and medium-volume mailers to use ZIP + 4 codes on more outgoing and reply mail. For Express Mail Service, the focus is on reliability, convenience, and the excellent value of the service. A special running of market by market promotions for newly-designed Express Mail street collection boxes will continue as a way to build business. The Postal Service also promotes its philatelic service through advertising to encourage customers to collect stamps by making them aware of the immediate reward and long term value of a stamp collection. This enjoyable, convenient hobby was further advanced in Fiscal Year 1985 with the development of a U.S. Commemorative Stamp Club.

Employee-oriented advertisements included a message on courtesy at the post office lobby window and resulted in a renewed emphasis in the field on window clerk training, as well as recognition of the need to provide outstanding service to the public. In an effort to help the public avoid service problems, public service advertising programs concerning the moved mail program, Christmas season mailing, and mail fraud, continued during Fiscal Year 1985.

**e. Communications.** One way in which the Postal Service meets its obligation to keep the public informed about postal matters is by responding to thousands of media inquiries. The past year was a particularly active one for the Public & Employee Communications Department with the appointment of a new Postmaster General and Deputy Postmaster General, the implementation of new postage rates, and the arbitrated settlements of several collective bargaining agreements. This Department also handled requests for information from print and broadcast news organizations on automation and the ZIP + 4 code, postal finances, and numerous other subjects. During the year, it scheduled interviews and news conferences for the Postmaster General, members of the Board of Governors, and senior postal officials and responded to requests from publishers' associations to clarify issues concerning second-class mailing requirements. Through trade publications, publishers received a package of information from the Postal Service on how best to use their second-class mailing privileges. Public service announcements and media kits to inform the public about National Card and Letter-Writing Week, dog bite awareness and prevention, mailing early at Christmas, and consumer protection continued to be used successfully.

To improve the working relationship between the Postal Service and its customers and exchange views on matters of mutual interest, the Postmaster General initiated an ambitious customer contact effort in Fiscal Year 1985, involving private meetings and public appearances throughout the country. To enhance the system of sharing news and information within the Postal Service, Postal Video Network, a bimonthly videotaped report on postal topics, was launched during the year. Each 10 to 15- minute tape contains a summary of recent postal events and issues, a feature segment, and a message on safety. Copies of the tapes are distributed to all major postal installations. Feedback from managers and craft employees indicates that the Postal Video Network gives postal people a better understanding of efforts to improve performance and service.

Also keeping postal people informed are several internal publications. *Postal Life*, a bimonthly magazine, reaches the entire workforce, while the biweekly newsletter *Postal Leader* brings postal news to some 80,000 managers. *NEWSBREAK*, a biweekly newsbrief, is posted on bulletin boards in all postal facilities. In addition, 300 employee newsletters are produced by local facilities and regional headquarters with the help of PENS, the Postal Editors News Service, a monthly publication that offers information on postal issues and policy, and ideas and suggestions for local editors.

The community relations program initiated a number of projects that successfully encouraged more individual postal people, as well as the Postal Service as an institution, to become involved with local communities. The Partnership in Education project, which began with an agreement between employees at postal Headquarters and Anacostia Senior High School in Washington, D.C., was expanded to include postal facilities and schools around the country. The project, which involves tutoring, special lectures, and field trips, has been recognized by the President and by organizers of a national symposium on partnerships. The Postal Service also established community service recognition awards for employees who volunteer their time and talents in their communities. The first winners received their awards from the Regional Postmasters General during special ceremonies in each region. Community relations activity was extended beyond local communities when the Postal Service, the four largest postal employee unions, and the three management associations sponsored an emergency relief fund in response to the East African famine. The Postal Employees Ethiopian Relief Support (PEERS) fund collected more than $800,000 from postal people which was sent to Ethiopia through the American Red Cross. These efforts earned the Postal Service two awards of merit and one award of commendation from *Community Relations Report* magazine.

## B. Mail Volume and Service Performance.

### 1. Aggregate Volumes.

Although below the 10.2 percent growth registered in Fiscal Year 1984, overall mail volume grew 6.5 percent to 140 billion pieces in Fiscal Year 1985. The slowdown in volume growth might, in part, be attributed to the general rate increase which went into effect February 17, 1985. Smaller volume increases usually occur immediately after rate increases and then volume returns to its longer-term growth rate shortly thereafter.

**TABLE 9**

**Historical and Projected Mail Volumes**
**(Millions of Pieces)**
**(Government Fiscal Years)**

| | 1983 | 1984 | 1985 | Projected 1986 | Projected 1987 |
|---|---|---|---|---|---|
| First Class | 64,246.88 | 68,428.57 | 72,440.28 | 75,248.10 | 78,575.30 |
| % change | 3.29 | 6.51 | 5.86 | 3.88 | 4.42 |
| Presort letters | 13,355.46 | 15,310.58 | 17,546.21 | 19,584.30 | 21,418.50 |
| % change | 20.37 | 14.64 | 14.60 | 11.62 | 9.37 |
| Priority mail | 271.35 | 293.44 | 307.82 | 321.00 | 339.00 |
| % change | 4.90 | 8.14 | 4.90 | 4.28 | 5.61 |
| Express mail | 36.80 | 43.91 | 45.25 | 49.90 | 53.60 |
| % change | 29.35 | 19.32 | 3.05 | 10.28 | 7.41 |
| Mailgrams | 36.60 | 34.33 | 31.27 | 30.20 | 28.60 |
| % change | (13.02) | (6.20) | (8.91) | (3.42) | (5.30) |
| Second class and controlled circulation, total | 9,219.75 | 9,522.48 | 10,379.52 | 9,966.50 | 10,120.30 |
| % change | (3.22) | 3.28 | 9.00 | (3.98) | 1.54 |
| Nonprofit | 1,900.23 | 2,040.93 | 2,136.68 | 2,032.60 | 2,037.60 |
| % change | (19.86) | 7.40 | 4.69 | (4.87) | 0.25 |
| Third class, total | 40,734.72 | 48,248.71 | 52,170.26 | 55,509.00 | 62,275.50 |
| % change | 10.94 | 18.45 | 8.13 | 6.40 | 12.19 |
| Carrier-route presort | 16,698.07 | 21,391.90 | 23,407.24 | 25,808.10 | 29,767.80 |
| % change | 21.54 | 28.11 | 9.42 | 10.26 | 15.34 |
| Nonprofit | 9,381.08 | 10,371.57 | 10,976.13 | 11,762.10 | 12,842.60 |
| % change | 3.50 | 10.56 | 5.83 | 7.16 | 9.19 |
| Fourth class, total | 567.53 | 599.04 | 575.68 | 544.60 | 557.80 |
| % change | (4.89) | 5.55 | (3.90) | (5.40) | 2.42 |
| Parcel post | 162.68 | 162.05 | 151.54 | 136.50 | 137.60 |
| % change | (3.15) | (0.39) | (6.49) | (9.92) | 0.81 |
| Bound printed matter | 168.13 | 194.76 | 212.83 | 202.40 | 219.40 |
| % change | 1.76 | 15.84 | 9.28 | (4.90) | 8.40 |
| Special rate | 181.38 | 187.69 | 165.68 | 162.20 | 154.80 |
| % change | (12.64) | 3.48 | (11.73) | (2.10) | (4.56) |
| Library rate | 55.35 | 54.54 | 45.63 | 43.50 | 46.00 |
| % change | (0.95) | (1.46) | (16.34) | (4.67) | 5.75 |
| Penalty mail | 2,775.32 | 2,523.18 | 2,608.05 | 2,443.00 | 2,362.00 |
| % change | (5.81) | (9.09) | 3.36 | (6.33) | (3.32) |
| Franked mail | 549.24 | 923.96 | 682.91 | 995.90 | 685.90 |
| % change | (28.92) | 66.23 | (26.09) | 45.83 | (31.13) |
| Free-blind | 38.40 | 32.17 | 27.53 | 27.80 | 29.40 |
| % change | 25.53 | (16.22) | (14.42) | 0.98 | 5.76 |
| International | 904.82 | 894.84 | 829.40 | 778.70 | 769.10 |
| % change | (2.45) | (1.10) | (7.31) | (6.11) | (1.23) |
| Total volume | 119,381.41 | 131,544.62 | 140,097.96 | 145,914.70 | 155,796.40 |
| % change | 4.68 | 10.19 | 6.50 | 4.15 | 6.77 |

Second- and third-class mail showed the strongest volume growth of 9.0 percent and 8.1 percent, respectively. The 5.9 percent volume growth in First-Class Mail was robust and can be attributed, in part, to the additional one-cent discount added to the First-Class Presort discount in February 1985. Also, presort service bureaus have been particularly effective in building their presort volume from small volume customers who would otherwise not be able to take advantage of this type of service. The use of the presorted and shared mail postal programs continues to be the contributing factor in the growth of third-class mail volume. Since Fiscal Year 1980, third-class mail's share of total mail volume has increased, offsetting declines recorded in all other major mail categories. ZIP + 4 volume reached 6.2 billion pieces in Fiscal Year 1985. That is 91.1 percent of the goal of 6.8 billion pieces. Volume is projected to reach 10.3 billion in Fiscal Year 1986. Overall mail volume growth for Fiscal Year 1986 and 1987 is projected to approximate the 1985 volume increases. Please refer to Table 9 for data on historical and projected volumes for major classes, subclasses, and rate categories.

**2. First-Class and Priority Mail.**

**a. Volume.** First-Class Mail continues as the largest single class of mail and the greatest source of postal revenues—52 percent of the total mail volume and 58 percent of total revenue. In spite of the rate increase in Fiscal Year 1985, volume rose by over 4 billion pieces, or 5.9 percent. Much of the increase is in presorted mail, which increased by over 13 percent. Over 25 percent of First-Class Mail is now presorted. In addition, mailers have begun to take advantage of the ZIP + 4 code rate incentive. In Fiscal Year 1985, over one and one half billion pieces of First-Class Mail qualified for this discount, compared to 195 million in 1984. First-Class Mail volume is expected to grow by 3.9 percent in Fiscal Year 1986, and by 4.4 percent in Fiscal Year 1987.

Priority Mail, which consists of First-Class Mail weighing over 12 ounces, totaled 308 million pieces of mail in 1985, an increase of nearly 5 percent over Fiscal Year 1984. It is expected that volumes in this highly competitive market will continue their steady growth in the next two years, with increases of 4.3 and 5.6 percent, respectively.

**b. Service Performance.** First-Class overnight stamped service performance in the first two quarters of Fiscal Year 1985 was at 95 percent, compared to 94 percent in Fiscal Year 1984. During the last two quarters it was 96 percent, the same as last year. The fiscal year performance was 96 percent compared to 95 percent in Fiscal Year 1984. Second- and third-day delivery commitments were met 85 and 88 percent of the time, respectively, compared to 86 and 88 percent last year. Christmas holiday service performance for stamped mail surpassed the previous year with overnight at 94 percent (from 93 percent), second-day at 82 percent (from 79 percent), and third-day at 87 percent (from 82 percent). The two- and three-day declines seen during the second and third quarters were directly attributable to the effects of airline deregulation. Detailed information on service performance with respect to stamped First-Class Mail, gathered through the Origin Destination Information System (ODIS), may be found in Table 10.

**TABLE 10**

**ODIS Service Performance Percentage**
**Fiscal Year 1985**
**(Stamped First-Class Mail)**

| | Quarter I | | Quarter II | | Quarter III | | Quarter IV | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | 85 | 84 | 85 | 84 | 85 | 84 | 85 | 84 |
| Overnight Delivery | 95 | 94 | 95 | 94 | 96 | 96 | 96 | 96 |
| 2-Day Delivery | 85 | 84 | 79 | 83 | 87 | 88 | 88 | 89 |
| 3-Day Delivery | 89 | 86 | 82 | 84 | 89 | 90 | 90 | 90 |
| % Delivered Overnight | 64 | 64 | 63 | 64 | 66 | 66 | 66 | 66 |
| % Delivered in 2 Days | 87 | 87 | 84 | 86 | 89 | 89 | 89 | 89 |
| Average Days to Deliver | 1.53 | 1.53 | 1.58 | 1.57 | 1.49 | 1.48 | 1.48 | 1.48 |

Overnight metered service was 90 percent in Fiscal Year 1985, compared to 88 percent last year. Postal Quarter IV saw a performance of 91 percent, the highest quarter on record. The upward trend in metered mail was due mainly to increased management attention, growing presort volumes, and the continuing performance improvement in the New York City metropolitan area. Please refer to Table 11 for metered mail performance statistics.

**TABLE 11**

**Metered Performance**
**(Percentage)**

| | PQ I | | PQ II | | PQ III | | PQ IV | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | 85 | 84 | 85 | 84 | 85 | 84 | 85 | 84 |
| Overnight | 90 | 87 | 89 | 87 | 90 | 89 | 91 | 90 |
| 2-Day | 83 | 80 | 76 | 78 | 82 | 82 | 84 | 85 |
| 3-Day | 88 | 85 | 81 | 83 | 88 | 87 | 89 | 90 |
| % Delivered Overnight | 56 | 55 | 55 | 55 | 55 | 55 | 56 | 57 |
| % Delivered in 2-Days | 86 | 85 | 83 | 84 | 86 | 86 | 87 | 88 |
| Average Days to Deliver | 1.64 | 1.67 | 1.71 | 1.69 | 1.65 | 1.65 | 1.63 | 1.60 |

Compared with Fiscal Year 1984, overnight service performance in 1985 improved dramatically in Manhattan, especially with metered mail. Both stamped and metered mail surpassed last year's performance in every quarter. Overall stamped overnight performance for 1985 was 93 percent, four points over the 89 percent in 1984. Overnight metered climbed from 67 percent in 1984 to 81 percent this year, and was 85 percent in Postal Quarter IV, a 56 percentage point rise from the 29 percent at the beginning of Fiscal Year 1980.

**TABLE 12**

**New York/Northeast Region Performance**
**First-Class Overnight Origin Stamped**
**(Percentage)**

| | PQ I | | PQ II | | PQ III | | PQ IV | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | 85 | 84 | 85 | 84 | 85 | 84 | 85 | 84 |
| Manhattan | 93 | 84 | 92 | 88 | 94 | 90 | 94 | 93 |
| New York Cy. District | 93 | 86 | 93 | 89 | 94 | 91 | 94 | 94 |
| Northeast Region | 93 | 93 | 94 | 93 | 95 | 95 | 95 | 95 |

**First-Class Overnight Origin Metered**
**(Percentage)**

| | PQ I | | PQ II | | PQ III | | PQ IV | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | 85 | 84 | 85 | 84 | 85 | 84 | 85 | 84 |
| Manhattan | 80 | 58 | 77 | 62 | 81 | 67 | 85 | 78 |
| New York Cy. District | 82 | 59 | 79 | 64 | 82 | 68 | 85 | 79 |
| Northeast Region | 88 | 82 | 88 | 84 | 89 | 86 | 90 | 89 |

**c. Programs and Trends.** Presort First-Class Mail is expected to continue to grow at a moderate rate as long as the relative value of presort remains the same when compared to the regular First-Class Mail rate. During Fiscal Year 1985, a flat rate was approved and implemented for two pound Priority Mail shipments.

Within the last decade, outside forecasters have consistently predicted that technological advances would divert mail business elsewhere, causing significant declines in mail volume. Competitive physical delivery systems and technological advances have not yet diverted significant amounts of existing postal business from the mailstream. Increases in mail volume traditionally are most directly affected by and have grown steadily with increased population and growth in the economy. There are several underlying reasons for this continual volume growth despite the enormous expansion of other means of communication. Principally, the overall growth of the economy in general and of the communi-

cations and service sectors in particular has greatly expanded the total number of messages of all forms. Deregulation in the communications and financial services businesses has also profoundly affected the way companies interact, generating multiple new message opportunities. These new and different forms of communication have tended only to increase consumers' options and the number of messages, rather than displace existing forms of communication.

### 3. E-COM Service.

E-COM Service was discontinued on September 3, 1985. At the June 4, 1985 meeting of the Board of Governors, the Postmaster General announced that the Postal Service's efforts to divest itself of E-COM were continuing although the Service had still not received any firm offer that was financially attractive enough to be accepted. He advised the Board that, as constituted, E-COM service was not paying its way and showed no sign of doing so and that management would move promptly to terminate its agreements with customers and carriers for access to E-COM facilities. A 90-day termination period was initiated and preparations were begun to close down the E-COM system. At the Board's July 1985 meeting, the Governors approved a recommended decision of the Postal Rate Commission to eliminate the E-COM subclass of mail. E-COM service was subsequently terminated on September 3, 1985. The Postal Service is in the process of selling and otherwise disposing of the E-COM equipment and is offering to license the E-COM software for only the cost of reproduction. To reduce E-COM costs during the close-down period, the Postal Service reduced operations from seven to five days, returned 25 E-COM Sales and Service Representatives and five Regional Technical Coordinators to their previous assignments, and reduced the E-COM Headquarters staff to five individuals.

### 4. Express Mail.

**a. Volume.** During Fiscal Year 1985, total Express Mail volume increased by approximately 3.1 percent. While Express Mail service remained a major competitor in the market for expedited mail services, its volume did not grow as fast as the overall market due in part to service problems caused by erratic air transportation schedules and the competitive atmosphere in which Express Mail operates. Express Mail Next Day Service shipments accounted for 91.7 percent of the total Express Mail volume. The volume of Express Mail Custom Designed Service shipments has decreased to 4.5 percent of total Express Mail shipments as a result of the change by many customers to Express Mail Next Day Service. Express Mail International Service continues to show steady growth with a rate of 20.4 in Fiscal Year 1985.

**b. Service Performance.** During Fiscal Year 1985, 94.3 percent of all Express Mail shipments were delivered on time, slightly more than 0.2 percent over last year's performance. Loss of airlift capability, attributed to the suspension of late night flights by major carriers and frequent scheduling changes following the sunset of the Civil Aeronautics Board, induced a dramatic decline in the service performance levels for Express Mail in midyear. This trend was reversed following increased management attention and innovative action in the transportation area. A contract was awarded for night freighter service to provide needed airlift during critical time frames. Service performance has significantly improved to and from the 15 cities on this network. Helicopters were employed to transport mail to and from airports and downtown mail processing centers. This form of transportation has been invaluable in areas where heavy traffic congestion and other impediments would normally delay motor vehicles. Also, some long distance surface routes have been created in heavy traffic corridors, such as the "Eagle Express Run" between the New York area and the Washington, D.C., area. The time-critical nature of Express Mail has been reemphasized.

The volume increase in Express Mail International Service has created a marked increase in the number of inquiries concerning the delivery of these items. To provide better service and meet customer expectations, a system for computerizing delivery records is being implemented at exchange offices and is expected to provide faster response to inquiries when fully operational. In January, 1985, an inquiry tracking system was started, permitting analysis of the information gathered during the processing of individual inquiries.

**c. Programs and Trends.** As a regulated organization, the Postal Service cannot react as quickly to marketplace or service changes as can companies in the private sector. Consequently, the Postal Service must maintain and increase Express Mail Service by offering excellent service and prices. In Fiscal Year 1985, the Postal Service sought to enhance Express Mail in a variety of ways. One of the most significant methods employed was contracting with Consolidated Freightways/Eastern Airlines (CF/EAL) for needed transportation services. Initially connecting ten major markets, with a transfer hub in Houston, Texas, this new system has concentrated and advanced Express Mail shipments, making them available for earlier delivery. The system has proven to be effective and is being expanded to additional cities.

Other actions being taken to make Express Mail a more attractive, dependable service include the introduction of a five-pound flat rate stamp, expansion of the number of street collection boxes and an overnighter envelope for shipments which do not need the large two-pound pack, improvement and expansion of training courses, a new post-office-to-post-office box service, a retail merchandising program, and improvement in the Service's ability to track shipments and analyze delivery information.

The feasibility of offering volume pricing and a letter rate is also under review. In order to improve the time management process of customer service representatives, an Account Development System is being instituted which will permit them to keep in contact with their customers on a more systematic basis.

**5. Second-Class Mail.**

**a. Volume.** Total second-class volume has increased significantly for the first time in several years. In Fiscal Year 1985, the combined volume for within-county, nonprofit, classroom, and regular-rate mail rose to 10.4 billion pieces, a 9.0 percent increase over Fiscal Year 1984. Presorted second-class mail comprised 32 percent of total second-class volume. Effective January 1, 1985, all second-class mail was processed in the surface preferential network and all publications were moved from the bulk mail network.

**b. Service Performance.** Changes in previous transportation schedules were required to meet current transportation requirements for surface preferential mail. Also, some changes in staffing were necessary in distribution and delivery operations to handle the increase in surface preferential mail volume that had formerly been handled in Bulk Business Mail operations. Each postal region identified problem areas and took corrective action. Based on service information provided by mailers, the Postal Service had reversed any service decline in early 1985.

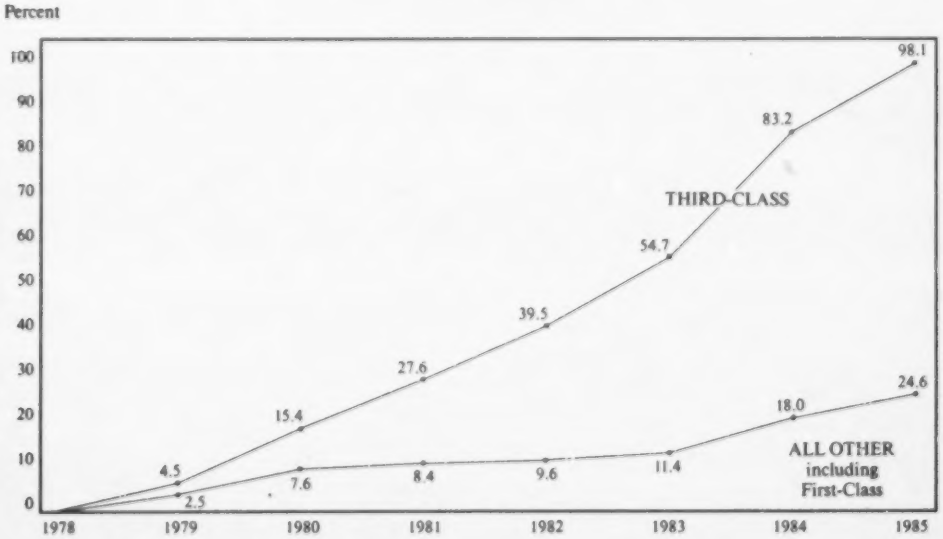
**c. Programs and Trends.** Despite the rate increase in February 1985, there has been no appreciable increase in the use of alternative delivery services by second-class mailers. A new computerized Address Change Service has been introduced by the Postal Service. This new service provides changes of address on computer tape and eliminates the need for paper notification to a publisher that a subscriber has moved to a different location. This new service is rapidly attracting the interest of publishers.

**6. Third-Class Mail.**

**a. Volume.** Third-class mail continues to be one of the fastest growing mail categories, increasing 8.1 percent to 52.2 billion pieces in Fiscal Year 1985. Please refer to Tables 13 and 14. The largest increase in regular third-class volume occurred for mail presorted to a carrier route, which reached a volume of 23.4 billion pieces, 9.4 percent more than in 1984. Third-class mail presorted to the five-digit Zip Code level also grew significantly. Nonprofit third-class mail presorted to a carrier route experienced a 19.1 percent increase over 1984.

**TABLE 13**

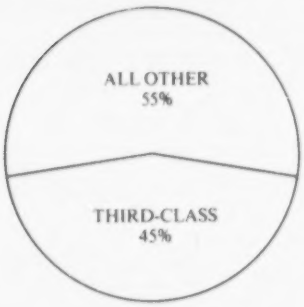
**Third-Class Mail Volume Growth**
**Cumulative Percent Change Since 1978**




During Fiscal Year 1984 and 1985 total mail volume grew 8.6 billion pieces. Third-class mail accounted for 3.9 billion pieces of total growth.

**TABLE 14**

**Mail Volume Growth**
**Fiscal Year 1984 and Fiscal Year 1985**




Overall, third-class mail volume is projected to continue its growth rate, averaging about seven percent annually. Factors such as the expansion of services by advertising agencies, demographics, mass coverage, and the shared mail program clearly place third-class mail as an important and effective medium in the marketplace.

**b. Service Performance.** The Postal Service continued to receive information from members of the mailing industry which reflects that service performance has maintained the level of improvement achieved during 1984. Additional measurement systems are being explored by the Postal Service. The original prototype service measurement system tested by the Postal Service proved too costly, resulting in the testing of a more streamlined system which also uses dated labels on sacks but reduces the costs associated with dating and collecting the labels. The report format for this second service measurement system also enables management to identify specific city pairs failing to meet service standards so that corrective action can be taken. Overall assessment of the effectiveness of this new system, including the results and timeliness of the reports, is not expected until Fiscal Year 1986.

Six selected mailers are working with the Postal Service to assess both service performance and non-delivery of third-class mail pieces through the use of the Diagnostic Service Analysis Test. This test procedure involves the utilization of a private contractor to maintain a list of individuals who report only to that contractor. Mailing pieces are sent to these individuals who report the date of receipt of the item or the non-receipt of the mailing piece after a predetermined length of time. In those areas where service performance or non-delivery rates are at an unacceptable level, diagnostic testing has helped to isolate the causes of delays. The initial overall procedure consists of 24 end-to-end and 12 diagnostic tests. Eleven of the end-to-end tests have been completed and the results are still being reviewed for accuracy and reliability.

Testing is expected to continue for at least one more year.

**c. Programs and Trends.** The processing and delivery of third-class mail continues to be a high priority topic within the Postal Service. Continued emphasis on the color-coding of bulk business mail from acceptance to delivery is encouraged at field installations. The installation of sack sorters at four bulk mail centers to significantly increase their sack processing capability will be completed by 1986.

The Postal Service plans to standardize detached address labels for bulk business mail because of their widespread use and varied sizes. The Postal Service has also amended its policy on detached labels which limited the placement of non-address data or markings on mailing pieces to permit second- and third-class mail to include pictures and information on missing children, provided that the information is furnished by the National Center for Missing and Exploited Children.

**7. Fourth-Class Mail.**

**a. Volume.** Total fourth-class mail volume reversed its Fiscal Year 1984 accomplishments and declined by 3.9 percent. However, the volume of bound printed matter increased by 9.3 percent. The 6.5 percent decline in parcel post was due mainly to competitive conditions and to increased rates. Special rate fourth-class and library rate volumes also declined by 11.7 and 16.3 percent, respectively.

**b. Service Performance.** Parcel post service performance achieved record high levels during Fiscal Year 1985. Inter-bulk mail center service exceeded that for the same period last year in each of the four fiscal quarters. Intra-bulk mail center performance also achieved its highest quarterly level of service in Fiscal Year 1985, surpassing its previous quarterly high by two percentage points.

As a result of management attention, coupled with specific engineering changes in the conveyer and container unloading systems, parcel post damage continues to be stabilized at a rate of two parcels per ten thousand pieces handled.

**c. Programs and Trends.** As a result of the bulk mail center network review effort, the Parcel Post Improvement Program was implemented in Fiscal Year 1985. The program establishes bulk mail center and general mail facility unloading parameters for all incoming vans. Depending upon the region, all vans arriving during an operating tour must be unloaded within four to seven hours. A system for color coding parcels according to the required day of delivery was also implemented during the year. Other programs which continue to be explored are parcel bar coding, laser scanning, and the use of pallets for dispatching parcels and sacks between bulk mail centers. Further study of these methods will continue in Fiscal Year 1986. On November 8, 1985, the Postal Service also has filed a request with the Postal Rate Commis-

sion to offer an experimental destination-BMC parcel post service. Under this service, parcels deposited directly at a destination bulk mail center would be charged unzoned, discounted rates. This experimental service would be offered at three to five bulk mail centers for two years.

The itemized postage program implemented last year is having a significant impact on parcel post. While overall volume continues to decline, many large shippers have diverted business to parcel post because itemized postage can be integrated into their existing system. The program reduces mailer operating costs by eliminating the need to apply postage to each piece of mail. Postage is paid through a centralized advance deposit account, which is especially convenient for drop shippers using multiple entry points.

**8. International Mail.**

**a. Volume.** International mail accounts for less than one percent of the Postal Service's volume and 3.3 percent of its revenue, or $882 million. In Fiscal Year 1985, the volume of outgoing international mail decreased 7.3 percent from that handled in Fiscal Year 1984. The decline was shared equally by surface mail, whose volume was down 7.1 percent, and airmail, whose volume also declined by 7.4 percent. This downward trend is a source of concern and has prompted actions designed to reverse it. Among these are an International Presort Airmail test program and rate revisions and service expansion in the Postal Service's International Surface Airlift (I-SAL) service. In contrast to other international services, Express Mail International Service continued to exhibit healthy volume growth in Fiscal Year 1985, growing 20.4 percent over the previous year.

**b. Service Performance.** As a result of its International Mail Service Improvement Program, instituted in 1982, international service performance continued to improve in Fiscal Year 1985, as shown by a number of test mailings conducted with other major nations of the world. The program has included the implementation of measures to improve processing and transportation times, continued discussions with the Customs Service to reduce backlogs, expanded quality control to reduce mishandlings, and closer coordination with other postal administrations, particularly with Canada, our largest mail exchange partner. Nonetheless, further improvement is a constant goal.

The International Presort Airmail program was instituted in August 1985 in four cities: New York, Washington, Boston, and Chicago. Customer participants in the test agree to presort their mail by country of destination and to give the Postal Service an average daily minimum of 500 pieces. Mail to every country in the world is being accepted, and in every case delivery times are expected to be cut by at least one day. The test is being closely monitored to determine whether expansion is merited and whether cost savings to the Postal Service, among other reasons, would justify a lowering of current rates for participants. As part of its I-SAL improvement, the Postal Service is dramatically expanding the number of countries that users of this service for printed matter can reach. The number of destination countries is currently 39.

**c. International Mail Competition.** The Postal Service faces heavy competition in the area of international delivery, a competition prompted by an increased desire on the part of customers for greater speed and consistency of delivery. To aid in the development of an international mail business strategy, an international marketing unit has been established and an international market development plan is being formulated.

The Postal Service recognizes its first priority is to compete on the basis of good service at reasonable price. Yet it also believes that the activities of certain "remailing" companies violate the Private Express Statutes. These companies bypass the Postal Service and ship foreign destination letter mail collected from U.S. customers to a foreign point, where the postage of that country is applied and the letter mail then put in the foreign mailstream. The amount of mail lost to the Postal Service, while not quantified, is believed to be very significant. The Postal Service has asked the Justice Department to take action in these cases.

**d. Programs and Trends.** The Express Mail International Service (EMIS) network continued to expand and now comprises 49 countries, with Barbados, Norway, New Zealand, Saudi Arabia, Panama, Finland, Venezuela, Portugal, Denmark, Turkey, the United Arab Emirates, the Bahamas, and Greece signing bilateral agreements in Fiscal Year 1985. Iceland and Cyprus were added to the network early in Fiscal Year 1986. In February 1985, 17 Latin American countries participated in a four-week training course at the Postal Service Management Academy on managing Express Mail International Service. Since the course offering, Panama has introduced Express Mail, and negotiations are underway to start service with Chile and Paraguay. This rapid expansion of the EMIS network led to the establishment of an inter-departmental task force to examine systems problems. This effort has already resulted in the implementation of a computer-assisted tracking system to record all EMIS items.

No new cities were added to the International Surface Air Lift network in Fiscal Year 1985. However, Miami will join the network in January 1986. The Postal Service will offer direct service to 17 countries and service in-transit to another 49. Dispatch will take place from 10 cities in the United States. Plans are currently being implemented to increase the number of destinations served in Central and South America, the Caribbean, and the Far East.

**e. INTELPOST.** The conversion of INTELPOST to a dial-up operation using the public switched telephone network for the exchange of messages has increased the ability of customers to access the system, resulting in greater volumes and reduced operating costs. During Fiscal Year 1985, the network was expanded by the addition of 10 countries, for a total of 27. In Fiscal Year 1986, the number of participating countries is expected to expand to include Spain, Iceland, the People's Republic of China, New Zealand, Thailand, and Chile. While still not sufficient to cover the operating costs of the system, INTELPOST outgoing volume increased more than 54 percent in Fiscal Year 1985, while the cost of operating the new system saved 80 percent over the former system, including an 87 percent reduction in staff. A new marketing strategy placed emphasis on taking advantage of the joint opportunities available through manufacturers in the facsimile, telecommunications, and service industries. This approach enabled the Postal Service to increase INTELPOST awareness, resulting in more volume at less cost.

**f. Terminal Dues.** In a continuing effort to keep terminal dues payments moderate, the Postal Service has implemented an improved international mail accounting system and signed bilateral terminal dues agreements with certain major trading partners. The new accounting system provides documentation detailing the actual bag counts for mails dispatched and received. The system's accuracy has helped reduce the Postal Service's terminal dues liability dramatically. The negotiation of more equitable bilateral agreements with Canada, Great Britain, The Netherlands, Switzerland, West Germany, and France has also helped to keep these costs in line. Negotiations continue with other countries. The Postal Service is also a member of the Universal Postal Union's (UPU) new working party on terminal dues, whose findings will influence the terminal dues rates adopted by the 1989 UPU Congress.

**g. International Agreements and Conferences.** In Fiscal Year 1985, the Postal Service and the Ministry of Posts and Telecommunications of Japan concluded negotiations to introduce a new type of international postal money order system between the two countries. The new system closely resembles the domestic money order service. The U.S. mailer can now obtain an international postal money order at the post office and mail it directly to a payee in Japan. The net benefit to the customer is that transmission time from purchaser to payee has been reduced from as much as six weeks to one week. This money order service began August 1, 1985, and will serve as a model for similar service with other countries.

The Postal Service also signed a bilateral agreement with Canada to jointly conduct programs for service improvement and market development. As a result of this agreement, an Express Mail merchandise proposal was implemented which permits dutiable items in Express Mail shipments to Canada, a marketing trial for next morning and overnight delivery of Express Mail to New York/Montreal/Toronto was initiated, and registered mail requirements were revised.

At an International Mail Marketing Conference in San Francisco hosted by the Postal Service, representatives from five postal administrations and private firms met to discuss ways to better meet the needs of international mailers. Conference discussions centered on improvements in international mail products and services, joint promotional efforts, and new product development.

In March 1985, the Postal Union of the Americas and Spain (PUAS) held its Thirteenth Congress in Havana, Cuba. Unlike the UPU Congress, which regulates the exchange of mail among signatory countries, the PUAS's mission is to improve the region's postal services through technical cooperation and specialized studies of interest to member countries. The Postal Service submitted six proposals to the PUAS Congress, four of which were adopted in slightly modified form, and two of which were withdrawn. The successful proposals concerned improving the security of registered mail, the use of test-letter mailings to check the level of mail service in the region, and the establishment of Express Mail as a PUAS priority. The next PUAS Congress will take place in Buenos Aires in 1990. In 1989 the Postal Service will host the Twentieth Congress of the Universal Postal Union. Planning and preparations are under way for this event, which will be held in Washington, D.C.

The Postal Service continues to welcome large numbers of foreign postal officials who are attracted by its reputation as an innovative world leader in productivity and efficiency. During 1985, representatives from 39 countries visited the Postal Service to study its organization, methods, and operations. Exchange programs with France, the Federal Republic of Germany, and Japan were also continued. The Postal Service welcomed a senior Pakistani postal official on a three-month study program sponsored by the UPU through a United Nations Development Program grant.

The Postal Service continued its efforts to challenge Soviet interference with mail and to seek improvements in mail service with that country. The Postal Service and the State Department have coordinated efforts to press the Soviet Union to account for registered items which were not delivered in accordance with Soviet delivery claims. Should these efforts prove unsuccessful, the issue may be raised at the 1986 Human Contacts Meeting in Bern, Switzerland, and pursued under the UPU arbitration provisions. In cooperation with several organizations concerned with this issue, the Postal Service developed an improved set of guidelines for customers who mail to the Soviet Union which are scheduled for distribution to the public in Fiscal Year 1986. Mail from the so-called homelands of South Africa is still being treated as mail from South Africa, and the Postal Service has explicitly rejected South African requests that this mail be treated differently from all other South African mail. The State Department has advised the Congress that the Postal Service's approach to this issue is appropriate.

## C. Productivity.

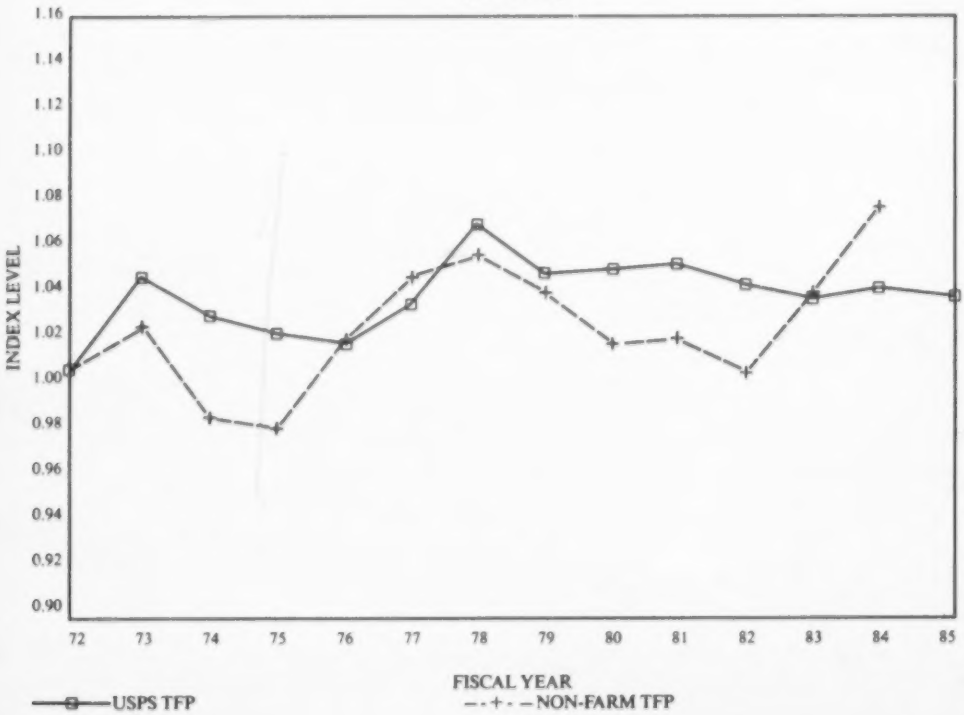
### 1. General.

In the past, the Postal Service used a ratio of total mail pieces to total labor hours as a gross measure of productivity. Changes in the mail mix, processing equipment, and facilities have created a need for a productivity measure that is more responsive to changing business conditions. For this reason, the Postal Service engaged in an extensive data development effort over the past several years to improve the productivity measurement system. This new measure, USPS Total Factor Productivity (TFP), accounts for the increasing share of mail volume presorted by mailers, the increased implementation of mechanization and automation, facilities development, and the growing postal delivery network.

Table 15 displays in graph form the cumulative change in total factor productivity since 1972 based on this new measure. It also presents, for comparison purposes, similar results published by the Bureau of Labor Statistics measuring non-farm total factor productivity for the private sector of the economy. During the period 1972-1984, USPS total factor productivity increased an average .3 percent per year, while private non-farm total factor productivity increased .6 percent per year. In Fiscal Year 1985, USPS productivity declined .3 percent.

Table 16 compares the previously stated Gross Productivity percentages for Fiscal Years 1972 through 1984 with the new USPS Total Factor Productivity Measure restated for these same years.

**TABLE 15**
**Comparison of Productivity Indices**
**(1972 = 1.00)**




### 2. Mail Delivery and Collection.

**a. Delivery Programs.** The Postal Service continued its emphasis on productivity improvement programs such as centralized delivery and route management during Fiscal Year 1985. In addition to these programs, new carrier casing equipment designed to improve productivity was developed and is in the process of being tested. An annual route and unit review process has also been developed and implemented.

**b. Collection Programs.** Approximately 1.3 percent of total delivery costs is attributable to the cost of collec-

**TABLE 16**

**Comparison of USPS Productivity**

**Displaying Prior Measurements on the Basis of Gross Productivity with Restated Measurements Utilizing Total Factor(s) Involved in Achieving Productivity**

**Fiscal Year 1972 Through 1984**

| Fiscal Year | USPS Gross Productivity* | USPS Total Factor Productivity |
|---|---|---|
| 1972 | 2.5% | 2.6% |
| 1973 | 6.4% | 4.4% |
| 1974 | -2.4% | -1.7% |
| 1975 | 0.6% | -0.8% |
| 1976 | 2.0% | -0.5% |
| 1977 | 5.2% | 1.7% |
| 1978 | 6.0% | 3.4% |
| 1979 | 1.3% | -2.1% |
| 1980 | 5.5% | 0.3% |
| 1981 | 3.4% | 0.1% |
| 1982 | 3.6% | -0.9% |
| 1983 | 3.4% | -0.5% |
| 1984 | 4.7% | 0.4% |

* USPS Gross Productivity obtained from prior annual Comprehensive Statements on Postal Operations.

tions. Continued progress was made during the year in enhancing collection productivity through field audits to monitor the implementation of the Collection Service and Mail Flow Improvement Program. The changing needs of both postal customers and automated mail processing operations have increased the need for earlier and more frequent collections. To improve productivity, managers periodically adjust times of collection and routes of travel to eliminate inefficiencies and duplications, and merge collection mail from a number of points to take advantage of existing transportation. Local management also reviews collection boxes receiving less than 25 pieces of mail a day to determine whether or not to retain those boxes at their present locations.

At the close of Fiscal Year 1985, there were approximately 286,000 regular street collection boxes nationwide. Including other collection equipment (cooperative mailing racks, mail chutes, receiving boxes in high-rise offices, and neighborhood delivery and collection box units) there are more than 395,000 collection receptacles, an increase of 95,000 over Fiscal Year 1984.

### 3. Mail Processing.

The automation/mechanization program and quality control continue to head the mail processing programs having the greatest impact on increasing productivity on a national level. The optical character readers, bar code sorters, and flat sorters have had outstanding performance records in terms of reliability and productivity.

## D. Delivery Services and Retail Programs

### 1. General.

Delivery growth has remained consistent for the past several years and is expected to remain at its current level during Fiscal Year 1986. Over 38 percent of the growth is occurring in the Southern Region and approximately 30 percent in the Western Region. Traditional means of addressing increased workload, such as overtime or auxiliary assistance, have been used by the Postal Service to control the impact of increased mail volumes on delivery routes, and the Service is constantly seeking other methods to cope with volume increases. Delivery service accounts for over 37 percent of total labor costs. In Fiscal Year 1985, the Service added an estimated 1.35 million new city deliveries, for an approximate total of 73.8 million deliveries. Rural deliveries increased from approximately 16.6 million to 17.4 million, and contract route deliveries increased to a total of 866,000. At the end of Fiscal Year 1985, the average city, rural, and highway contract box route had approximately 502, 430, and 177 deliveries, respectively.

The rural carrier craft requested that an effort be made to design a case which would be compatible with the one-bundle delivery system currently being used by most rural carriers. Responding to this request, the Postal Service developed a new piece of equipment which met this criteria and may prove to be more efficient than equipment currently in use. Referred to as the one-bundle sliding shelf system, it is practical, efficient, and meets the needs of the Postal Service and its employees. Present plans call for deployment of these modules on rural routes beginning in late 1986, with testing scheduled on selected city delivery routes in Fiscal Year 1986. If the results of the test are positive, the one-bundle sliding shelf may become the standard piece of carrier equipment for casing mail.

### 2. Centralized Delivery.

The centralized delivery program is a concerted effort on the part of the Postal Service to provide the best balance between service and economy. In publications, presentations, and meetings throughout the nation, the Postal Service encourages the use of centralized delivery and strives to assure proper implementation. Basic centralized delivery equipment options include grouped individual boxes, neighborhood delivery and collection box units (NDCBUs), and delivery centers and mailrooms. Certain types of NDCBUs are currently manufactured with a convertible collection/delivery compartment, with parcel lockers available as an adjunct to other centralized delivery equipment. Local managers make the determination whether to install parcel lockers on a case-by-case basis.

Participation in the centralized delivery program is voluntary for residential customers except for those residing in apartment and similar housing. If customers request it, the Postal Service will consider conversion from an existing form of delivery to centralized delivery. Custom-

ers who live alone and cannot physically obtain their mail from a receptacle located at a distance from their home can request a hardship exception from their local postmaster and door delivery will be made available. As a major means of addressing quality deficiencies in the NDCBUs, the Postal Service is examining new standard designs, as well as utilizing in-plant quality control inspection procedures to improve the current production units.

The estimated annual per delivery cost for delivery service is $96 for door, $75 for curbline, and $51 for each centralized receptacle. These costs are very significant, particularly in light of the 2.1 million new deliveries added in Fiscal Year 1985 and the 1.2 million estimated in Fiscal Year 1986. During Fiscal Year 1985, 1.3 million centralized deliveries were added, representing an annual savings in delivery costs of approximately $31.2 million. It is anticipated that an additional million centralized delivery units will be added during the coming year. New deliveries are often centralized by using NDCBUs. In addition to the considerable savings in labor and fuel costs, other advantages of NDCBUs are carrier safety, mail security and resistance to vandalism, and regular collection service.

The Postal Service still maintains a policy of purchasing NDCBU equipment at the lowest administrative level possible, consistent with the need for competition, and in quantities of 100 units or less. In accordance with a year-old policy, the Postal Service will not purchase apartment-type receptacles for use as centralized delivery equipment nor will it provide centralized delivery equipment of any type to apartments and condominiums, hotels and motels, trailer parks, and colleges and universities. The Postal Service will continue to purchase, install, and maintain delivery equipment for residential and business deliveries and deliveries on military installations, when centralized delivery is the selected mode of delivery. Exceptions to this general policy will be considered on a case-by-case basis for projects under way when the procurement policy was adopted.

**3. Carrier Alert Program.**

The Carrier Alert Program, officially established in 1982 through the cooperation of the National Association of Letter Carriers, the Postal Service, and community service agencies, continues to grow and offer its services to more people every week. In the Summer of 1985, the National Rural Letter Carriers' Association became officially affiliated with the Carrier Alert Program. Numerous instances were reported during the year where letter carriers on city or rural routes saved lives or rendered assistance to persons participating in the program. This participation is strictly voluntary and is conducted under guidelines carefully followed by all who play an important role in making the mechanism a success. The continued expansion of the program depends upon local sponsoring agencies who assume the administrative responsibility for record keeping and notification of emergency assistance groups.

**4. Computerized Forwarding System.**

During Fiscal Year 1985, the Computerized Forwarding System (CFS), which is presently located at 198 sites, processed 2.1 billion pieces of undeliverable-as-addressed mail utilizing 1,500 minicomputer systems. CFS currently has a data base of approximately 40 million change-of-address orders and handles about 95 percent of the moved mail volume in the country. All CFS units received new photocopy equipment during the year specifically tailored to the CFS application which allows speedy processing and quality reproductions of address corrections for mailers.

The prototype Address Change Service (ACS), which computerized the handling of second-class address corrections, became operational in Fiscal Year 1985. There are currently 112 CFS sites which have ACS capability, with the expectation that all 198 sites will be operational by the end of Fiscal Year 1986. One hundred and ten publications are participating in ACS and rapid growth is anticipated within the next 18 months. Meeting all these objectives will enable the Postal Service to computerize 90 percent of the second-class address corrections which will mean a $5 million dollar cost avoidance over the manual notification process formerly used and dramatically reduce customer cost for improved address maintenance.

Future CFS programs will continue to stress mechanisms which will reduce undeliverable-as-addressed mail and provide quality addresses to postal customers. Change of address data are now telecommunicated to a central data processing center under the Address Change Service. This service provides customers with their changes of address on a more efficient medium, computer tape, rather than on paper. In the future, CFS services will be able to provide customers with their change-of-address data prior to mailing. This will reduce mailer costs and the volume of change-of-address mail that must be rehandled by the Postal Service.

**5. Operation MAIL.**

Operation MAIL (Mail Addressing Improvement Link) is a joint U.S. Postal Service/Business Mailer Cooperative process designed to investigate those factors in addressing technology which create inefficiencies in the processing and delivery of mail. The objective of Operation MAIL is to systematically study a mailer's address and file maintenance practices, then determine why delivery cannot be completed to certain addresses. The compilation of this delivery information benefits both the Postal Service and its customers through the reduction of costly undeliverable-as-addressed mail.

The process includes two mailer profile questionnaires, a delivery unit analysis set up by name and address cards, and/or a ZIP+ 4 tape-to-tape matching of address files. To date, 109 mailers have participated in the Operation MAIL process. During Fiscal Year 1986, all management sectional centers will have trained Operation MAIL facilitators who will be available to assist mailers through the process of evaluating their address files.

**6. Service to the Armed Forces.**

The Postal Service continues its commitment to provide improved mail service to military personnel. Several actions supporting this commitment were taken during Fiscal Year 1985 in conjunction with the Military Postal Service Agency (MPSA) and overseas commands worldwide. Overseas military mail shipments amounted to 101,628.8 tons in Fiscal Year 1985, an 8 percent decline over 1984.

A Postal Service military systems team visited major commands, APOs, FPOs, and other military postal installations during the year, devoting particular attention to postal equipment requirements, joint planning, and postal technical training for military personnel. This trip revealed that mail service to overseas personnel was generally quite good, with improved transit times and a substantial reduction in customer complaints. An improved system which allows for more expeditious requisitioning and delivery of needed items is now in place, making the availability and placement of postal equipment in overseas military post offices the best it has ever been.

A better measure of understanding has been developed between U.S. Customs officials and the Postal Service at all U.S. gateways. This has greatly improved the flow of mail through Customs operations with minimal delays. Improvements in the gateway operations at San Francisco, Seattle, and New York have also resulted in more expeditious processing of military mail.

**7. Vehicles.**

The Postal Service operates a fleet of 145,811 vehicles, 9,776 of which are leased. A listing of the postal fleet is shown in Table 16. The average age of a vehicle in the fleet is 6.7 years. A limited number of electric vehicles remain in the postal fleet so that the Service can keep abreast of technological developments, but any increase in the use of this type of vehicle must await battery technology advances. The Postal Service continues its experimentation with compressed natural gas (CNG) as an alternate fuel. The CNG program has been expanded to four locations and includes 278 vehicles operating in a dual-fuel mode. Future plans are to expand these test sites to include at least five additional model energy offices. These tests will be directed towards improving equipment configurations and refining procurement specifications and procedures. Expansion beyond these sites will be in areas where local utility companies provide the refueling equipment or where other types of refueling stations are available. Local managers continue to use the figures derived from the Transportation Efficiency Achievement and Vehicle Maintenance Efficiency Achievement measures to identify and quantify problems and to adjust their operations to eliminate recurrences.

**8. Long-Life Vehicles.**

Conceived in 1982, the Long-Life Vehicle procurement reached the 24,000 mile durability test phase in January 1985. Three manufacturers' vehicles began the test. One has completed the entire durability test, with the other two vehicles continuing towards completion. Price proposals will not be solicited until the durability test phase has been completed. The contract award was scheduled for the Summer of 1985, but delays caused by unseasonable bad weather, unscheduled maintenance and repairs, and manufacturers' protests have set the contract award back to the Spring of 1986.

TABLE 17

Vehicle Inventory

| Vehicle Type | FY 1985 |
|---|---|
| ¼-Ton | 97,721 |
| ¼-Ton Electric | 53 |
| ½-Ton | 13,802 |
| 1-Ton | 6,394 |
| 2 ½-Ton | 897 |
| 5-Ton | 1,519 |
| 7-Ton | 1,189 |
| Tractors | 1,007 |
| Trailers | 2,709 |
| Spotter Tractors | 1,047 |
| Experimental Vehicles | 404 |
| Service Vehicles | 3,035 |
| Administrative Vehicles | 2,302 |
| Law Enforcement Vehicles | 1,059 |
| Security Vehicles | 103 |
| Mobile Post Office | 72 |
| Miscellaneous Vehicles | 2,722 |
| Total Active (Postal-Owned) | 136,035 |
| Leased | 9,776 |
| Total Active Vehicles | 145,811 |

**9. All Services Program.**

Initiated in 1983, the purpose of the All Services Program is to improve the quality of service and educate consumers about the many postal products and services available. The Program is coordinated by the marketing office of the Customer Services Department and virtually every function at the Headquarters level participates. Each postal region, district, and management sectional center has an All Services coordinator whose job it is to support the program's objectives with projects for their respective functional areas. These efforts have proven to be quite successful based on the customer surveys designed to measure opinions against five broad service categories. Additional feedback systems, such as the Consumer Service Cards and local post office surveys, are also being used to monitor changing consumer opinions. At the Headquarters level, several projects have been tested to help customers conduct their postal

business more promptly. Specifically, post office hours were adjusted, an informational hot line was developed, automated equipment was deployed, and assistance was provided by supervisors in post office lobbies. Local post offices have developed similar projects in an effort to meet the stated purpose of the Program.

**10. Customer Services Improvement Process (CSIP).**

This process of improving all aspects of the customer services operation was implemented in seven management sectional centers during Fiscal Year 1985, bringing the total number to 58 nationwide. Using an operations system model, selected management sectional centers and some of their component units collect and analyze data specific to each subsystem in the model and develop management action plans to improve service and efficiency. The model includes such subsystems as delivery, retail, distribution, and transportation. The goal is to improve all subsystems through better management techniques, thereby increasing the efficiency and effectiveness of operations and improving the quality of service to customers. A unit review procedure was also developed in conjunction with this process. This procedure provides a systematic approach to the review of most operations in a unit and produces graphic displays of the results. The procedure has been expanded and is now required annually in all units throughout the Postal Service.

**11. Model Unit Program.**

The program was designed to improve delivery and retail operations by utilizing an operations system audit. The audit enables local postal managers to assess the effectiveness of their operations and to develop appropriate action plans to improve the total operations system. The audit was revised for use in Fiscal Year 1985, and is now being expanded so that it will become a unit review process in small units and a maintenance instrument in the larger units involved in on-site unit reviews. In either case, the results will enable managers to more easily identify areas that require specific attention. There are no plans to expand the number of official model units from the 459 currently certified. Some management sectional centers, however, have chosen to recognize units that are not official models but have achieved the goals of the program. In these cases, a local certification process has been implemented. The Model Unit Program will be re-examined next year and possibly incorporated into the Customer Services Improvement Process or the route and unit review effort.

**12. Route and Unit Review**

The route and unit review process is an analysis of the performance of a delivery unit and each of its routes on an annual basis. The purpose of the review is to expand operational efficiency in order to better manage the flow of work within stations, branches, and post offices consistent with the total operations network. Through this process, workload is reviewed at least annually to determine if route conditions have changed sufficiently to warrant revision of the permissible hours for a work function. The route and unit review process will be applied to all offices with city or rural delivery service. A special delivery unit review will also be used in offices with special delivery messengers.

**13. Customer Services Management Data System.**

This system was designed to provide the daily workload and workhour information needed to manage delivery, retail, customer services, post office box distribution, and mail forwarding activities at the local level. The information is available weekly in each management sectional center to assist managers in monitoring and analyzing the performance of their delivery and customer services clerical units in a more timely manner. Additional elements introduced into the Customer Services Management Data System data base in Fiscal Year 1985 provided greater analysis capabilities and better measures of productivity. In Fiscal Year 1986, management sectional centers, districts, regions, and headquarters will all be able to access the same centralized data base via computer. This capability will significantly reduce manual report generation and provide a much more extensive base for data analysis for all levels of management.

**14. Retail Operations.**

**a. Lobby and Window Improvement.** In 1980, the Postal Service introduced a new piece of window automation equipment called the Integrated Retail Terminal (IRT). These terminals combine the functions of an electronic scale and a microcomputer in a single unit. The IRT quickly provides window clerks and customers with accurate rate and service information, thus expediting service. By 1982, 1400 such systems had been deployed. During Fiscal Year 1985, 3500 IRTs were deployed, and an additional 1500 are scheduled to be placed in postal installations in Fiscal Year 1986. To further enhance the capabilities of these units, international rates and restrictions and the complete Express Mail network will be developed as a part of a software package in Fiscal Year 1986. Eventually, all window transactions will be automated through a system called PRISM, or Postal Retail Information System Management, which is discussed later in this chapter.

**b. Philatelic Programs.** During Fiscal Year 1985, the Postal Service issued 63 stamp and stationery items and received $122.6 million in total revenue from the sale of stamps, stationery items, and philatelic products to stamp collectors. Of this total, 74.1 percent of the gross sales was generated by the sale of stamps never redeemed as postage, and the other 25.9 percent came from the sale of philatelic products. The gross revenue for the fiscal

year represents a 25.2 percent reduction from the 1984 figure of $187 million which was due, in large part, to the success of the Olympic stamps and stationery items sold during that year.

To equitably handle the thousands of stamp subjects proposed annually, the Postal Service's Citizens' Stamp Advisory Committee reviews all the proposals and recommends a limited number to the Postmaster General for approval. During Fiscal Year 1985, more than 1500 stamp and stationery subjects were proposed by individuals from the United States and several foreign countries. For most new stamp and stationery issues, the Postal Service conducts special first day of issue dedication ceremonies in cities across the country selected on the basis of their association with the particular stamp or stationery subject. The Postal Service's Stamps Division plans and coordinates each ceremony in conjunction with local post offices and sponsoring groups.

Several nationwide philatelic promotional campaigns are planned for Fiscal Year 1986. The U.S. Commemorative Stamp Club, which focuses on introducing noncollectors to the hobby of stamp collecting, is one such program. For a modest annual membership fee, subscribers will receive all the materials necessary to start and maintain a stamp collection. Other promotions being planned include the Commemorative Panel and Souvenir Page subscription programs, as well as the sale of embossed envelopes preprinted with return addresses. The cornerstone of the 1986 philatelic programs will be AMERIPEX '86. Taking place from May 22 through June 1, 1986 near Chicago, AMERIPEX '86 is expected to be the largest philatelic exhibition ever held in North America. The event will be co-hosted by the Postal Service and all the major philatelic societies in the United States. Postal administrations and stamp dealers from around the world will participate, and over 100,000 people are expected to attend. An international pavilion will display worldclass exhibits, including the philatelic collections of Queen Elizabeth and Prince Rainier of Monaco. A number of auctions will be held where collectors can bid on rare and famous stamps. AMERIPEX '86 is being referred to as the "World's Fair of Philately" and should generate unparalleled revenues.

In 1985, Youths Exhibiting Stamps (Y.E.S.) was initiated. Young stamp collectors were invited to exhibit their collections and compete for prizes at the state, regional and national levels. Entrants were divided into three age levels in both a novice and experienced category. The regional and national winners in each of these six categories will have their exhibits displayed at AMERIPEX '86. A total of 1,260 prizes will be awarded nationally, and the six national winners will receive an all-expense paid trip to Chicago to attend AMERIPEX '86 next Spring.

**c. Post Office Box Deployment.** In an effort to satisfy customer demand, approximately 1.2 million additional post office boxes were deployed at both postal and nonpostal locations during Fiscal Year 1985. By the end of Fiscal Year 1986, an additional one million post office boxes will be installed, bringing the total number of boxes available for rent to 17.1 million.

**d. Self-Service Equipment.** The Postal Service places primary emphasis on the replacement of obsolete vending equipment with more modern and reliable equipment to address the majority of consumer retail complaints which relate to inoperative vending equipment. A contract was awarded in July 1984 for 1,700 small currency changers. Because of problems encountered during the initial testing, deployment of these changers will be delayed until the middle of Fiscal Year 1986. Twenty-one new self-service postal centers were activated during Fiscal Year 1985, bringing the total of such centers in operation around the country to 1,550. In November 1984, the Board of Governors approved funding for the procurement and installation of 11,220 stamp vending units. It is anticipated that deployment of these units will begin early in Fiscal Year 1986 and continue through the middle of Fiscal Year 1987. Deployment of these stamp vending units will improve the availability of service, increase customer convenience, and provide the potential for moving customers away from the traditional full service window.

Testing also began in the area of stamp sales by consignment. In January 1984, a survey revealed that approximately 3,500 private firms were selling postage to their customers at face value. A rough estimate of the postage dispensed by these firms is in excess of $49 million dollars. In all of these situations, the firms purchased the stamps from the Postal Service and paid cash upon receipt. Stamp sales by consignment will remove the advance cost of purchasing stamps by consigning the first stamp stock amount to a private firm. The private firm would then sell the stamps at face value as a service to its customers, with no fee paid by the Postal Service. After the initial consignment of one month's projected sales, stamps would be obtained on a cash and carry basis.

**e. Special Services.**

**(1) Consolidated Delivery Receipt System (CDRS).** A test of insured and certified labels to improve the processing of delivery receipts has not yet been completed, but the preliminary results look favorable. A machine-readable delivery receipt included with the labels will assist in automating the filing and retrieval of the information necessary to process claims and inquiries. A cost study is being conducted and, if the Consolidated Delivery Receipt System is cost beneficial, a prototype system will be developed and installed at the Cincinnati Post Office prior to the implementation of a nationwide system.

**(2) Automated Delivery Receipt Program.** The Automated Delivery Receipt System (ADRS) expedites the recording and retrieval of accountable mail records. Significant savings have been realized through reduction in the amount of time spent preparing firm delivery bills

and searching delivery records. ADRS is in operation at 10 sites and additional units are being ordered.

**(3) Automated Dispatch System for Registered Mail.** The Postal Service has realized recoverable savings in excess of $10 million per year since the introduction of the Automated Dispatch System for Registered Mail in Fiscal Year 1982. Savings have resulted from decreased workhours needed to prepare registered mail dispatch bills which previously were handwritten. Four hundred and seventy-eight units are now in place in 142 locations.

**(4) Money Order Security.** To minimize the security problems associated with money orders, the Postal Service has implemented a solvent carbon money order as a short term solution. The solvent carbon was implemented in February 1985 and has proven to be quite effective. Solvent carbon is printed on the front and back of the money order, permitting 100 percent penetration of the carbon ink through the money order paper. Erasure, the primary means of fraudulently raising the amount, is deterred because penetration of the solvent carbon ink causes so much erosion of the paper that concealing the erasure is difficult. Solvent carbon is expensive, however, and its use has nearly tripled the cost of forms. As a long term alternative, the Postal Service is working with private industry to develop an optical character reader checkwriter/imprinter. The OCR capability would allow the processing of vouchers to continue on automated equipment and the checkwriter feature would provide the level of security that is standard in the financial industry. The Postal Service and the Bureau of Engraving and Printing have developed new money order designs which are intended to hinder counterfeiting. Both the OCR/checkwriter/imprinter and the money order designs are scheduled for implementation within the next two years.

### 15. Alaskan Project.

Mail Service in the Alaska District continues to show marked improvement even with Alaska's new mail handling situation. During the fiscal year, 24 postal facilities were built and 5 contract post offices opened. The number of city deliveries increased by 16,301, bringing the total to 125,401. As a result of this increase, seven new city delivery routes have been established.

### 16. Services to Federal Agencies and the Congress.

**a. Federal Mail Management.** The Postal Service provides technical assistance to virtually every Federal agency to help meet their mailing needs. Agencies are visited by representatives from the Customer Services Department on a regular basis to review cost saving mail management practices. These contacts usually result in a whole range of savings. The Internal Revenue Service realized a savings of up to $11 million dollars per day in interest as a result of using ZIP + 4 codes to distinguish those tax returns which contained payments as opposed to those requesting refunds. The Social Security Administration will save $2.4 million dollars annually because of a newly implemented presort program. The assistance provided by the Postal Service has produced similar results in other Federal agencies.

**b. Program Assistance.** The Postal Service remains committed to assisting other Federal agencies by distributing food coupons, accepting passport applications, handling Selective Service registrations, conducting housing vacancy surveys, selling migratory waterfowl stamps, and helping to prepare for the next decennial census. Periodic cost studies determine the rate of reimbursement for providing these services.

Authorizations-to-purchase are exchanged for food coupons at retail windows in 12 states. The fees for this service totaled $10.5 million for Fiscal Year 1985. During this fiscal year, over 960 authorized postal facilities accepted over 1.7 million passport applications for an approximate revenue of $10.1 million. There were 1,549,999 Selective Service registrations accepted, resulting in $914,500 in revenue. The Postal Service conducted housing surveys in specific geographic areas in cooperation with the Federal Home Loan Bank Board and realized revenues of $231,648 during Fiscal Year 1985. Migratory waterfowl stamps are placed on sale from July 1 each year through April of the following year. Over 1.9 million of the 1984-1985 stamps were purchased, producing over $380,000 in service revenue.

In preparation for the 1990 decennial census, the Postal Service and the Census Bureau have been conducting joint tests since 1983, focusing mainly on the cost, accuracy, and coverage of address lists compiled by the Postal Service, the Census Bureau, and private vendors. During the year, the Census Bureau conducted tests in rural and urban areas simulating the procedures being considered for use in 1990.

**c. Penalty and Franked Mail.** Revenue from penalty and franked mail totaled $934.4 million in Fiscal Year 1985, an increase of 3.8 percent from Fiscal Year 1984. This increase resulted from the February 1985 rate change, notwithstanding a 4.5 percent drop in the combined volume of penalty and franked mail during the year. The net volume decrease reflected a reduction of 241 million pieces in congressional franked mail, which was partially offset by an increase of 84.9 million penalty mail pieces. The penalty mail volume increase occurred in spite of efforts by executive agencies to reduce their postage costs and resulted, in part, from ineffective control systems in many agency mail management programs.

During the year, the Postal Service developed and implemented a program to audit agency penalty mail records and procedures using a public accounting firm. Thirty-three audits were completed which resulted in adjustments increasing agency postage costs by $7.4 million, a

4.5 percent increase over amounts determined by the agencies. Additional adjustments totaling $2.4 million were made by the Postal Service staff to correct computation errors and omissions in agency reports. This program has highlighted a number of serious problems in the sampling and reporting systems used by many agencies to determine penalty mail reimbursement.

The Postal Service completed computer programming on the first phase of a new Official Mail Accounting System during the year. When fully implemented in Fiscal Year 1986, this system will provide an accountability method for those agencies which desire to establish improved cost controls over penalty mail postage and to move away from the problems inherent in agency sampling and self-reporting. It will furnish more accurate and timely accounting of postage costs to those agencies using direct accountability for their penalty mail. It will also provide agencies with detailed data on magnetic tape which they can use to verify billings and track postage charges by cost centers.

Reflecting increased concern for the accuracy of sampling systems and the need to establish better postage cost controls, agencies significantly increased their use of direct accountability in anticipation of the implementation of the Official Mail Accounting System in Fiscal Year 1986. The number of penalty mail postage meters increased by 29.9 percent to a total of 6,758 meters. Twelve agencies ordered penalty mail stamps totaling $7.4 million, an increase of 245.5 percent over Fiscal Year 1984. New procedures to better account for mailings by government agency contractors were also implemented which brought mailings totaling 19.6 million pieces, involving $16.0 million in postage, under direct accountability. The U.S. Air Force, with a postage bill of $39.8 million, became the largest agency to eliminate sampling and convert totally to direct accountability. In addition, the Department of Defense announced that all its other agencies would convert to total direct accountability by October 1, 1989. A number of other agencies made significant progress in converting to direct accountability or seriously began considering doing so.

During Fiscal Year 1985, the Congress enacted, and the President signed, Public Law 99-87 to authorize the use of franked and penalty mail to assist in the location and recovery of missing children. In the future, such mail may display information, such as pictures and biographies, on missing children. The Postal Service will work with the Congress and the rest of the Executive Branch to implement this legislation in such a way that mail processing operations, which are heavily mechanized and automated, will not be hindered.

## E. Mail Processing

### 1. Automation and ZIP + 4 Codes.

An essential element of the automation program is the ZIP + 4 code. ZIP + 4 codes have become the grid on which all distribution and delivery operations for all classes of mail will be based. They will enable the Postal Service to use automation to sort mail down to the letter carrier route, reducing both labor costs and sorting errors. Future plans will extend this sorting to carrier segments for further efficiencies and cost savings. The Postal Service's ultimate goal is to have a machine-readable ZIP + 4 code applied to every piece of mail as early as possible after it enters the mailstream.

In the Fall of 1984, the last of the 252 Optical Character Readers (OCRs) furnished under the contracts with Pitney Bowes and Burroughs were deployed and accepted. The 248 Bar Code Sorters (BCSs) manufactured by Bell and Howell to be used in conjunction with the OCRs to process mail were also accepted, bringing to 121 the number of post offices with automated equipment and completing Phase I of the automation program on time and within budget. The performance of the equipment continues to meet expectations. The OCRs are processing over 90 million pieces of mail a day, 50 percent of which are read optically and bar coded.

The decision to obtain the automated equipment necessary to complete the full automated system in two phases was made to allow the Postal Service to benefit from advances in technology and to adjust Phase II requirements based on knowledge gained from Phase I. The 406 Phase II OCRs will be delivered beginning in 1986 by ElectroCom Automation under a contract awarded last year. The Phase II equipment will be deployed at both current automated sites and at an additional 91 sites. These 212 sites will then process 90 percent of the total originating letter mail volume in the United States. Both the General Accounting Office and the Office of Technology Assessment have reviewed the automation program and generally endorsed the efforts of the Postal Service to automate letter mail processing.

The Postal Service also awarded a competitive contract to ElectroCom on April 19, 1985, following testing conducted in Chicago during the Summer of 1984, for the manufacture of 456 BCSs at a cost of $79.1 million. Production deliveries will begin in May of 1986 and continue through mid-1989.

The volume of ZIP + 4-coded mail rose to 6.2 billion pieces in Fiscal Year 1985, a 180-percent increase over the previous year. Although volume growth has been steady, it has not reached the original projected levels. At the same time, technological advancements have increased the memory capacity and reduced the costs of multiline OCR equipment. For these reasons, the Postal Service decided, in Fiscal Year 1985, to begin competitive testing for acquisition of up to 250 multiline OCRs and to convert the 406 single-line Phase II OCRs. Both series of tests will take place during the Summer of 1986.

The multiline equipment can read an entire address and, after searching a computerized directory, determine the ZIP + 4 code for that address and print the related bar code for sortation. Multiline readers can increase savings from automation but do not obviate the

need for mailer application of the ZIP + 4 code. There are a number of reasons for this. First, multiline OCRs cannot read all mailing addresses. Mailer application of the code produces a much higher mail acceptance rate because of the redundancy provided by reading the nine-digit ZIP code and the full address.

With mailers' conversion of their mailing lists, the ZIP + 4 code will appear whenever that list is used. Thus, the code will appear on other mail pieces, including non-machinable mail such as second-class magazines, third-class envelopes, and parcels. This will help the Postal Service develop ways to automate the processing of this mail. Mailer application of the ZIP + 4 code also provides the potential for manual and machine-keyed bar coding of machinable mail that cannot be read by OCRs. This reduces subsequent handling steps by allowing automated processing by BCSs later in the mail sortation process.

The ZIP + 4 codes applied by the mailer offer the greatest cost savings and operating efficiencies to the Postal Service. Postal rates and product features will reflect this value. The choice of technology does not alter the design or use of the ZIP + 4 code by the Postal Service. No other program provides the Postal Service or its customers with a more cost-effective, more accurate, or more consistent means of sorting and distributing mail and stabilizing postage rates.

**2. Engineering Support.**

The Productivity Information Reporting System is currently being tested by the Office of Industrial Engineering at three bulk mail centers. National implementation is scheduled to be completed during the second quarter of Fiscal Year 1986. The system features software which is easier to use and maintain, a national database of operating performance statistics which can generate operating and financial reports, flexibility in the design of reporting outputs, and updated mail conversion factors and planning guidelines.

Procedures have been developed and tested which allow automation sites to identify both short-term operational savings from increased equipment utilization and to project the impact of Phase II automation. Optical, electronic, and software modifications have been developed to improve the performance of the optical character reader equipment in reading preprinted bar codes on business reply and courtesy reply mail. To improve the recognition rate, a program to determine the character shapes most commonly used in the mailstream was initiated. This program, combined with another to determine the frequency of use of each character shape, will be used to redesign the standard patterns and thus increase the recognition rate of the equipment.

Another system being developed by the Postal Service is the Production Planning and Control System (PPCS). A major goal of this system is to provide line supervisors with automated tools to better plan and manage daily production. PPCS will initially serve 117 mail processing sites, with expansion later to an additional 121 sites.

**3. Maintenance.**

To assure adherence to the safety standards set or suggested by the Postal Service, the Occupational Safety and Health Administration, non-government safety organizations, and postal maintenance personnel continue to conduct semi-annual safety evaluations of postal facilities. During the year, an additional 157 maintenance employees were trained at the Occupational Safety and Health Institute in Des Plaines, Illinois, bringing to 607 the total number of trained personnel.

Incorporating a recommendation made by the General Accounting Office on Phase I of the automation program, a maintenance employee has been assigned to the contractor's plant to obtain basic knowledge about the operation and maintenance of the Phase II equipment. This, combined with a special team set up to prepare training materials for the necessary maintenance technician course, has expedited inhouse training program development for the Phase II automated equipment. In addition, the postal maintenance staff has developed new hardware and software modifications for the Phase I equipment which will enhance its performance.

**4. Mechanization.**

With 245 flat sorting machines installed in 123 postal facilities, the Postal Service has moved from an almost entirely manual operation to a very effective mechanized system. These 100 separation sorters are processing up to 10,000 flats per hour. The machines are performing extremely well and are providing a return on investment significantly greater than the 80 percent originally projected. The Postal Service is now in the process of determining its requirements for additional sorters. A contract award is scheduled for early 1986, with deliveries to begin in 1987. Another area which is primarily a manual operation is the processing of small parcels and bundles. A program has been initiated to identify manufacturers who could provide equipment to mechanize this operation. Target facilities for this equipment will be bulk mail centers, large general post offices, and some airmail facilities. The new sorters will have 100 separations and will process approximately 9,000 pieces per hour. Field evaluation tests are scheduled for the Summer of 1986, with deliveries expected to begin in mid-1988.

Testing of the prototype integrated flat mail processing system in the Kansas City Post Office was terminated in July 1985. A second system, installed in the San Francisco Sectional Center, also showed a marginal return on investment and it too will be removed. The data gathered indicated that there were insufficient potential installation sites with the flat mail volume to justify national deployment. The multi-position letter sorting machine was improved during the year to enable it to process

some of the oversize letter mail currently sorted in manual cases. Field testing demonstrated an increase in machine productivity by reducing the jam rate. Testing will continue and deployment of the improved hardware will be scheduled in the near future.

**5. Quality Control.**

Emphasis was placed on providing all levels of management daily quality control information on late arriving managed mail resulting from delays in air transportation. This test data was used to gauge the magnitude of the problem and identify the areas in greatest need of management action. A national staffing review was completed during the year and a matrix for implementation was approved for field quality control personnel. The matrix provides for expansion of a local facility's special quality management projects and nationally structured quality control activities. In addition, the development and testing of a portable bar code reader has been completed and will be used by the quality control staff to verify the accuracy and readability of bar codes. This instrument replaces the manual reading and verification of bar codes and increases productivity by 500 percent. A portable quality control instrument for measuring the phosphor level on individual stamps is now in the final stages of development. This equipment will be used to monitor the performance of automated facing and canceling equipment to reduce the number of uncancelled stamps which must be manually processed. Two hundred of these instruments will be manufactured and issued to all facilities having automated facing and canceling equipment.

## F. Information and Research Programs

**1. Postal Service Voice Telecommunications Network.**

In October 1985, the Postal Service's voice telecommunications network replaced the Federal Telecommunications System as the Postal Service's primary means of telecommunications. The system connects over 300 major postal facilities through 10 new switching centers. It is anticipated that this new system will save the Postal Service $60 million over the next 10 years. The savings should cover the investment costs within three years. At this time, the Service opted to proceed with implementation rather than wait for the General Service Administration's GTS network which is expected to be operational in 1990. When GTS is implemented, the Postal Service can reevaluate its needs. If economics dictate a change, the structure of the Postal Service network is such that it will be compatible with GTS.

**2. Information System Plan.**

The Information System Plan is designed to automate the major information systems which cover every business area of the Postal Service. During 1985, significant progress was made on several of these systems. The Corporate Information System (CIS), which employs online technology to provide executives with decision-making data, was implemented at Postal Service Headquarters and will soon be expanded to the management sectional centers. The Energy Management Accounting System, which supports energy conservation efforts, has been installed at six pilot sites for testing and evaluation prior to national implementation. The Postal Source Data System (PSDS) Replacement Project proceeded as planned to modernize time and attendance data acquisition. Developmental efforts were completed for the hiring and testing module of the Human Resources Information System, and the Customer Services Management Data System went through its developmental stages and pilot site preparation. Finally, the Address Maintenance System, designed to provide ZIP Code data for the addressing and preparation of mail, progressed through the system design and development phases and is now planned for installation next year. Several of these projects will become operational in Fiscal Year 1986.

**3. Postal Retail Information Systems Management (PRISM).**

PRISM will automate all window service transactions and link the retail service window to the window service unit manager for administrative and control functions. It will also allow communication with higher level management. Two prototype offices are now in operation in the Washington, D.C. area. This Fall, a full-scale pilot test began in Tampa, Florida and Denver, Colorado and, by early 1986, it is projected that these two cities will have 59 retail service windows under the PRISM program. The pilot program will be monitored continuously to determine if national implementation can begin in late 1986 as scheduled. The Service continues its efforts to modernize retail operations with the aim of providing walk-in customers with rapid, accurate, and courteous service in a pleasant atmosphere. The success of this concept will determine future renovations of the lobbies of postal facilities throughout the country.

**4. PSDS Replacement/Extension Processing System.**

The Postal Source Data System (PSDS) tracks time and attendance and mail volume data at 117 large post offices. By 1984, the existing equipment used to track and print this data was in critical need of replacement since the entire system was reaching the end of its useful life. In December of 1984, the Board of Governors approved capital funding of $80.6 million to replace the existing system. Several steps in the overall replacement project have been completed. The host computer has been installed and management work stations and highspeed printers are in place at many of the sites. In addition, alphanumeric devices used to capture the data have been

installed at all 117 PSDS sites, and a request for proposals for badge readers and transactors was released to the public in late 1985. It is anticipated that the current time and attendance system will have been completely replaced with state-of-the-art equipment by the end of Fiscal Year 1988.

**5. Proactive Budget Environment (PROBE).**

PROBE is a computerized budget support system which will automate and unify in one system many of the tasks, now performed either manually or on microcomputers, which are required for annual operating plan development, review, implementation, and revision. The system is capable of on-line *ad hoc* analysis, financial modeling, and data handling and manipulation. A unique feature is the potential for continued evolution of the system because it is written in a flexible and user-friendly language. Although not fully operational – there are still some financial file structures in PROBE that must be modified to conform to Postal Service financial reporting—historical financial files are now available for analysis purposes. As a budgetary consideration, enhancements to the PROBE system have been deferred until Fiscal Year 1986.

**6. Advanced Research Program.**

The Postal Service has embarked on a new advanced research and technology program to develop automated systems capable of producing dramatic improvements in productivity in the 1990's. This program involves parallel activity in systems concept development and research into the technologies and techniques for implementing these concepts. The most attractive areas of opportunity for significant cost reduction have been identified and systems concepts are now being developed to exploit these opportunities. These include concepts for an advanced flat sorting system which will process a wider range of mail sizes and shapes than currently-available machinery and will employ technologies such as bar coding and optical character reading, and a new generation of retail vending equipment which will incorporate additional retail functions and be much more reliable and user-friendly than present vending equipment.

Advanced research is also under way to translate these advanced systems concepts into operational equipment. Current research involves advanced optical character recognition techniques, machine vision techniques, robotics, and non-contact printing.

## G. Postal Inspection Service.

**1. Mail Fraud and False Representation.**

As in past years, the Postal Inspection Service gives priority attention to those frauds which by their very nature have a substantial impact on the integrity of the postal system and those which victimize certain highly vulnerable groups, such as the elderly and minorities.

During Fiscal Year 1985, postal inspectors conducted 1,624 fraud investigations, arrested 1,142 individuals in fraud cases, and obtained a total of 886 convictions. In cooperation with the Consumer Protection Division of the Postal Service Law Department, 452 administrative actions were initiated under the False Representation Statutes – an increase of 32 percent over Fiscal Year 1984. Fifty-eight false representation orders and 361 consent agreements were obtained, requiring the termination of schemes to obtain money or property through the mails by misrepresentation. Direct purchase authority resulted in the issuance of 415 cease and desist orders which prohibited promoters from resuming the schemes which were challenged.

**2. Internal Crimes.**

In Fiscal Year 1985, postal inspectors arrested 654 employees or contractors for the theft or mistreatment of mail matter. Arrests for embezzlement and other related crimes numbered 288. Efforts continued during the fiscal year to combat fraud and abuse in the Workers' Compensation Program. The investigations conducted resulted in the removal of 105 employees, 22 of whom were prosecuted. The annual cost avoidance associated with these efforts was over $560,000. Investigations into allegations of on-duty narcotics involvement by employees were continued. The Employee Narcotics Investigation Program resulted in the arrest of 188 employees, all of whom resigned or were removed from the Postal Service.

**3. External Crimes.**

**a. Robberies.** The 128 robberies which occurred in Fiscal Year 1985 were a 19 percent decrease from last year. The Inspection Service's solution rate this year was 86 percent.

**b. Assaults.** There were 958 physical assaults on employees during the year, 4 of which were fatal. All of these homicides resulted in criminal prosecutions.

**c. Burglaries.** Post office burglaries decreased by 3 percent to a total of 673, the lowest total in ten years. The solution rate for postal burglaries in 1985 was 35 percent compared to the national law enforcement solution rate of 14 percent for all burglaries in calendar year 1984.

**d. Organized Theft of Mail From Vehicles and Receptacles.** During Fiscal Year 1985, the Postal Service received complaints alleging the nonreceipt of mail, 97,652 of which involved the theft and negotiation of checks. Investigations identified 216 gangs and fencing operations and inspectors subsequently arrested 875 persons for their involvement in these organized activities involving thefts from postal vehicles, storage and collection boxes, cooperative mailing racks, and carrier carts or satchels.

**e. Postage and Money Order Investigations.** The increased efforts in the investigation of illegally reused and counterfeit postage resulted in seizures of over 64 million stamps destined for reuse, with an estimated face value of 14 million. Seven thousand two-hundred ninety-three altered money orders were negotiated nationwide with a combined Postal Service and public loss of $2,965,970. Investigations resulted in the arrest and indictment of 607 individuals.

**4. Prohibited Mailings.**

During Fiscal Year 1985, there were 13 mail bomb incidents. Investigations of this type of mailing resulted in 3 convictions.

Child pornography continued to receive priority attention. Inspectors conducted 176 investigations during the year and obtained 141 convictions of child pornographers. Investigations involving mailed controlled substances totaled 326, resulting in 124 convictions.

**5. Crime Prevention.**

To increase both employees' and the general public's awareness of the threat posed by postal crime, the Inspection Service has designated approximately 100 postal inspectors nationwide as Crime Prevention Specialists. These specialists routinely speak to postal employees and business and consumer organizations and appear on radio and television to educate individuals in crime prevention measures. Last year, postal inspectors made 705 television and 423 radio appearances, conducted 917 newspaper and magazine interviews, and appeared before 2,642 postal, consumer, and business organizations. Additionally, 414 news releases were issued reporting on the results of major mail fraud and mail theft investigations.

Throughout the year, a nationwide publicity campaign was conducted on collect on delivery (COD) mail fraud aimed at small businesses. This included monthly mailings of 13,000 E-COM letters and a direct mail brochure advising businesses of fraudulent COD operations. In addition, public service announcements for television, radio, and magazine print advertisements were issued to alert consumers to mail fraud in general. The Postal Inspection Service also issued six posters and developed other literature to provide crime prevention tips to postal employees, whether at home or in the workplace, with emphasis on the point that security and crime prevention are everyone's concern. Further, a poster and brochure were created to inform the public on how to avoid unsolicited sexually oriented ads in their mail, and 30 million Treasury check envelopes containing a message on mail theft were printed. During the year, the Postal Inspection Service participated in Crime Prevention Month, Consumer Protection Week, five national conferences, an international security conference, two health and safety fairs, and the five regional postal forums.

**6. Private Express.**

The Postal Service has been under continuous pressure during Fiscal Year 1985 from private firms seeking to expand the statutory exceptions to and administrative suspensions of the Private Express Statutes. The most dramatic illustration is the growth of the practice of private international letter forwarding, often called remailing. Typically a private firm offers to carry the international letters of an American bank, brokerage house, or other business at a discount below U.S. international airmail rates to a location in a foreign country where the firm's courier or agent affixes local postage and deposits the letters in the domestic and international mails of that country. Often, the firm offers faster service than is expected of the Postal Service, as well as lower rates. Except in circumstances where one of the several exceptions or suspensions applies, this practice violates the Private Express Statutes because it involves the carriage of letters on which no postage has been paid over post routes within the United States. Some of these firms claim that their practice comes within the suspension for extremely urgent letters, but this claim is based on a misinterpretation of the terms of that suspension.

The House and Senate Delivery Service is a private firm which specializes in the delivery of materials to the Members of Congress at rates which are less than the applicable postage. After a thorough investigation, a major element of which was to locate the elusive owners of the firm, the Postal Service has requested that the Department of Justice file suit. On November 22, 1985, the Department brought suit to enjoin continued violations of the Statutes by the firm. Also on the legal front, litigation initiated prior to Fiscal Year 1985 by parties outside the Federal government to determine the applicability of the Private Express Statutes to the carriage of the letters of employees' unions by their employers remains pending in the courts. Less dramatic than litigation have been the continuing efforts of the Postal Service to ensure compliance with the Statutes by informing both carriers and shippers of letters of the limitations which the Statutes impose on private carriage. Our experience indicates that most reputable firms will comply with the Statutes when they are informed of their obligations.

# CHAPTER III

## A. Financial Results

### 1. Financial Status.

After three straight years of surpluses, the Postal Service experienced a net deficit of $251 million in Fiscal Year 1985. Though inflation remained moderate, unexpected increases in the costs of air transportation and higher-than-anticipated personnel costs resulting in part from the Kerr arbitration settlement combined to produce a net loss instead of the small surplus planned at the beginning of the year. Once again, government appropriations consisted, in large part, of revenue forgone appropriations to reimburse the Postal Service for carrying free and reduced-rate mail. The Postal Service received no public service appropriations, but did receive those transitional apropriations for Fiscal Years 1982 through 1984 deferred by the Omnibus Budget Reconciliation Act of 1981 and those authorized for the current year. Capital investments totaling $969 million were funded with the help of borrowing and all loan payments and debt service costs were paid on time.

The Postal Service redoubled its efforts during the year to achieve savings in work hour usage and transportation costs to cope with unexpected expenses. These cost control efforts, without which the year's financial situation could have been very poor, served to postpone the need for an immediate rate filing and permitted postal management to maintain its current rate strategy. The Postal Service's Board of Governors announced during the year that no new rate revenue would be required either in this year or in the coming year. It was such attention to cost control that allowed the Board of Governors to delay the implementation of the most recent rate increase until February 1985, five months after the date on which new rates could have gone into effect.

After contract negotiations between the Postal Service and the major exclusive unions representing postal employees failed to produce a new labor contract in July 1984, the arbitration provisions of the Postal Reorganization Act were activated. The arbitration settlements were notable in that they included, for the first time in postal labor-management relations, a reduction in starting pay for new employees hired during the duration of the contracts. This provision has resulted in a reduction in labor cost of $107.2 million during this fiscal year and will continue to produce savings into the future. The arbitration awards, however, also included a provision for an overtime penalty of two times the base hourly straight-time rate for certain duty and certain weekly workhour totals. This provision increased labor costs by $25 million during the year.

The significant effort set in motion by postal management to control operating costs promises substantial benefits for future ratepayers in that the cost control program covers Fiscal Years 1986 and 1987. A key element of the program is more effective scheduling. Performance goals have been identified and plans developed to implement them. The effects of these actions were becoming evident at the end of the year.

### 2. Fiscal Year 1985 Performance.

The Postal Service showed a net loss of $251 million during Fiscal Year 1985, $368 million less than the $117 million surplus from the previous year. Increased air

**TABLE 18**

**Income and Expense Statement**
**($ in Millions)**

| | FY 1984 | FY 1985 | Increase Amount | % |
|---|---|---|---|---|
| Income | | | | |
| Operating Revenue | 25,314 | 27,736 | 2,422 | 9.6 |
| Appropriations | 879 | 970 | 91 | 10.4 |
| Investment Income | 364 | 310 | (54) | (14.8) |
| Total Income | 26,557 | 29,016 | 2,459 | 9.3 |
| Expenses | | | | |
| Personnel and Related Costs | 22,157 | 24,349 | 2,192 | 9.9 |
| Other | 4,283 | 4,918 | 635 | 14.8 |
| Total Expenses | 26,440 | 29,267 | 2,827 | 10.7 |
| Income/(Loss) | 117 | (251) | (368) | – |

transportation costs and other factors noted previously contributed to a less satisfactory performance than had been forecast. Mail and special services revenues were $277 billion, slightly above budgeted levels. No public service appropriation was received during Fiscal Year 1985. Appropriations for revenue forgone increased by $90.6 million over the Fiscal Year 1984 level to $969.6 million. They consisted of a regular appropriation of $801 million and a supplemental appropriation of $169 million necessitated by the February 17, 1985 rate increase. Please refer to Table 17 for a summary of the financial performance of the Postal Service.

**3. Income.**

**a. Analysis.** Mail and special services revenues increased by $2.37 billion and $50 million, respectively. Despite the sluggish Gross National Product and the February omnibus rate increase, total operating revenue was slightly more than budgeted. Congressional appropriations increased from $879 million in Fiscal Year 1984 to $970 million in Fiscal Year 1985. Investment income declined by $54 million during Fiscal Year 1985. Of this decline, $39 million was caused by a lower average investment balance and $15 million was attributable to lower investment yields. Please refer to Table 18 for information on postal income.

**TABLE 19**

**Revenue and Operating Receipts**
**($ in Millions)**

| | FY 1984 | FY 1985 |
|---|---|---|
| Operating Revenues: | | |
| Mail Revenues | 24,446 | 26,818 |
| Special Services | 868 | 918 |
| Total Operating Revenues | 25,314 | 27,736 |
| Appropriations | | |
| (Operating) | 879 | 970 |
| Investment Income | 364 | 310 |
| Total Revenues | 26,557 | 29,016 |

**b. Appropriations.** The Postal Reorganization Act authorized the Postal Service to receive three categories of annual appropriations: public service appropriations to reimburse the Postal Service for providing postal services nationwide, transitional appropriations which now pay only for unfunded workers' compensation costs of the former Post Office Department, and revenue forgone appropriations which fund certain free and reduced postage rates authorized by statute. During Fiscal Year 1985, the Postal Service received appropriations totaling $1,209,129,000. Of this amount, $239,509,000 were for transitional costs deferred from Fiscal Years 1982 through 1984 plus the authorized amount for Fiscal Year 1985, and $969,620,000 were for revenue forgone, including a $168,620,000 supplemental appropriation necessitated by the implementation of new rates on February 17, 1985. When the Postal Service initiated its Fiscal Year 1985 appropriation request, there was no basis upon which to forecast the level of new rates for 1985 or the date on which they would be implemented. Only after new rates were approved and their implementation date established was it possible to determine the additional appropriation required. Inasmuch as a similar situation will probably exist when general rate increases are implemented in future years, supplemental appropriations to reimburse the Postal Service for the inevitable revenue shortfalls appear to be the fairest approach to all parties concerned. The Postal Service has operated successfully without a public service appropriation since Fiscal Year 1982. Therefore, no public service appropriation was requested or received for Fiscal Year 1985.

The major item of appropriations which the Postal Service receives is the revenue forgone appropriation to fund certain free and reduced rates authorized by the Congress. The rate categories entitled to this preferred treatment include, among others, second-class in-county and nonprofit, third-class nonprofit, fourth-class library matter, and free mail for the blind and visually handicapped and for overseas voting. Revenue forgone appropriations consist of two parts, the phasing appropriation and the continuing appropriation. The former results from a provision of title 39, United States Code establishing a sixteen-step schedule to phase in preferred rate increases annually to the point where these rates would be covering their full attributable costs. Under the current law, this point would be reached in July 1987. The continuing portion of the revenue forgone appropriation consists of the contribution to the institutional or fixed costs of the Postal Service which preferred-rate mailers are exempted by statute from making through their rates.

During the Fiscal Year 1986 appropriation process, various proposals to modify the revenue forgone appropriation were discussed. The Postal Service's primary interest in this process is in the ease of administration of the final system and in the effects of the decisions made with respect to nonprofit and preferred rates on the rate structure in general. Questions of who should be the beneficiaries of lower postage rates is a matter of public policy and should properly be resolved by the Congress and the Administration. Please refer to Table 19 for an analysis of the relative contributions of the taxpayers and the mailers to the preferred rate categories and to Table 20 for information on appropriations in general.

**c. Investment Income.** The Postal Service's investment income amounted to $310 million in Fiscal Year 1985, $54 million less than was earned the previous year. The reasons for the decline were a lower yield of 11.09

**TABLE 20**

**Analysis of FY 1985 Revenue Forgone Subsidy***
**(dollars in millions)**

| Class of Service | Total Income of Service | Income From Revenues | Income From Subsidy | Subsidy As Percent of Income |
|---|---|---|---|---|
| First-Class Mail | $16,739.9 | $16,739.9 | none | none |
| Priority Mail | 960.0 | 960.0 | none | none |
| Express Mail | 543.8 | 543.8 | none | none |
| Mailgram | 14.9 | 14.9 | none | none |
| Second-Class Mail | | | | |
| Within-the-county | $ 147.1 | $ 68.6 | $78.5 | 53.4% |
| Outside-the-county | | | | |
| Nonprofit publications | 220.0 | 144.5 | 75.5 | 34.3 |
| Classroom publications | 6.1 | 3.3 | 2.8 | 45.9 |
| Regular-rate publications | 899.3 | 862.6 | 36.7 | 4.1 |
| Fees | 9.8 | 9.8 | none | none |
| Transient mail | 4.1 | 4.1 | none | none |
| Total Second-Class Mail | $ 1,286.4 | $ 1,092.9 | $193.5 | 15.0% |
| Third-Class Mail | | | | |
| Single-piece rate | $ 148.8 | $ 148.8 | none | none |
| Regular bulk rate | 4,135.6 | 4,135.6 | none | none |
| Nonprofit bulk rate | 1,208.8 | 560.7 | $648.1 | 53.6% |
| Fees | 41.5 | 41.5 | none | none |
| Total Third-Class Mail | $ 5,534.7 | $ 4,886.6 | $648.1 | 11.7% |
| Fourth-Class Mail | | | | |
| Parcels (zone rate) | $ 404.6 | $ 404.6 | none | none |
| Bound Printed Matter | 119.5 | 119.5 | none | none |
| Special-rate matter | 199.3 | 199.3 | none | none |
| Library materials | 77.8 | 36.3 | $41.5 | 53.3% |
| Fees | 3.3 | 3.3 | none | none |
| Total Fourth-Class Mail | $ 804.5 | $ 763.0 | $41.5 | 5.2% |
| U.S. Government (franked and penalty) mail | 934.4 | $ 934.4 | none | none |
| Free mail for the blind and handicapped | 34.5 | none | $ 34.5 | 100.0% |
| International Mail | 882.3 | 882.3 | none | none |
| Totals | $27,735.4 | $25,817.8 | $917.6 | 3.3% |
| Adjustment for prior years | | | 52.0 | |
| Total | | | $969.6 | |

*Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss, which is the difference between the reduced rate and the otherwise applicable rate, is given to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.

percent versus 11.73 percent and a lower average investment balance of $2.79 billion as opposed to $3.15 billion. Excess cash continues to be invested in U.S. Treasury special issues.

**d. Debt Collection.** In 1985, the Postal Service completed the remainder of the computer system designed to control collection efforts for accounts receivable. While some post implementation modifications continue to be pursued, Postal Service collection efforts have been enhanced. With the completion of this project, efforts are now being directed toward reviewing the prospective benefits associated with using private firms in accordance with Public Law 97-365, the Debt Collection Act of 1982.

**e. Revenue Protection.** The Postal Service's revenue protection efforts continued to be successful during the year. The In-Plant Verification Test Program is a procedure whereby Postal Service employees verify the make-up of second- and fourth-class material in the mailer's plant prior to shipping to a postal facility where postage is paid and the material is accepted as a bulk mailing. In-plant verification provides tremendous benefits for mailers, printers, publishers, and the Postal Service. Mailers, printers, and publishers can be assured that their mailings will not be rejected because of presort and

**TABLE 21**

**Appropriations**
**($ in Thousands)**

| | Program Activity | | | |
|---|---|---|---|---|
| | Public Service | Revenue Forgone | POD Transitional Cost | Total |
| FY 1985: | | | | |
| USPS Statutory Request | ... | 730,703 | 239,509 | 970,212 |
| President's Recommendation | ... | 452,047 | 239,509 | 691,556 |
| Continuing Resolution, P.L. 98-473 | ... | 801,000 | 239,509 | 1,040,509 |
| Supplemental Appropriation P.L. 99-88 | ... | 168,620 | ... | 168,620 |
| FY 1986: | | | | |
| USPS Requests | ... | 980,993 | 39,128 | 1,020,121 |
| President's Recommendation | ... | ... | 39,128 | 39,128 |
| Continuing Resolution P.L. 99-190 | ... | 748,000 | ... | 748,000 |

mail make-up errors at the entry post office which may be hundreds or even thousands of miles from the printer's plant. Also, the entry post office can avoid the congestion and logistics problems associated with requiring mailers to pick up large rejected mailings. A test of the In-Plant Verification Program was completed on June 30, 1985. Final procedures for the full Program were published and became effective on July 1, 1985 covering the original 36 mailers' plants in the test program and the 15 new mailers' plants that have applied for authorization to participate in the program. That number is expected to continue to grow based on information requested by other mailers.

In order to ensure that mailers do not underpay postage, a procedure was designed to determine if the volume of mail declared by the mailer is reasonable so that the Postal Service's risk of being underpaid can be minimized. The procedures were intended only to provide a comparison between the number of pieces the mailer declares and the Postal Service's estimate, with an allowance for the possibility that the Postal Service had underestimated the amount of tare. Since the exact weights of sacks, trays, pallets, and the like varies as a result of changes in material, manufacturers' procedures, and repairs, a correction factor is used based on the degree of confidence the Service has in its capability to correctly identify the type and weight of individual containers. Using the correction factor and standard tare weights allows a uniform method for verifying bulk mailings nationwide.

**4. Costs.**

**a. General Analysis.** Postal Service operating expenses increased from $26.4 billion in Fiscal Year 1984 to $29.3 billion in Fiscal Year 1985, an increase of 10.7 percent. Increased income of $2.5 billion over Fiscal Year 1984 did not provide sufficient revenues to offset this increase in operating expenses. During the year, inflation was 2.7 percent. Personnel and related costs increased $2.2 billion, primarily from the new labor contracts, which was only partly offset by smaller-than-forecasted cost-of-living payments to the approximately 651,000 bargaining unit employees. Other costs increased 14.8 percent, resulting primarily from the deregulation of domestic air transportation, with small offsetting savings in fuel costs. Please see Table 21, Income and Expense Statement. Figures 1 and 2 Postal Dollar and Application of Funds, respectively, highlight the major types of postal costs and the application of funds to resource requirements.

**b. Salaries and Benefits.**

***(1) Increases.*** At the end of Fiscal Year 1985, the average annual base salary of a bargaining-unit employee was $24,396, or $11.73 per hour. Total average annual salaries and benefits, excluding service-wide costs, amounted to $29,621 per employee, with $3,876 attributable to benefits. This represents an increase of 19.1 percent in total compensation and benefits since postal reorganization. Personnel compensation and benefits still comprise about 83 percent of the Postal Service's expenses, as is depicted in Figure 1. From Fiscal Year 1984 to Fiscal Year 1985, the cost of personnel salaries increased from $18.8 billion to $20.1 billion, while its proportion of total operating expenses fell from 71.2 percent to 68.6 percent. The cost of personnel benefits increased from $3.4 billion to $4.2 billion during the year, while its proportion of total operating expenses rose from 12.9 percent to 14.3 percent. During the fiscal year, pay increases and cost-of-living adjustments called for by collective bargaining agreements amounted to $577.3 and $193.7 million, respectively.

Comparatively, these costs are higher than Fiscal Year 1984 because of the contract impasse preventing last year's pay increase from being paid in Fiscal Year 1984. Furthermore, in the first full pay period of April 1985, the cost-of-living adjustment provided for under the 1981

Figure 1

**Postal Dollar**
**FY 1985**

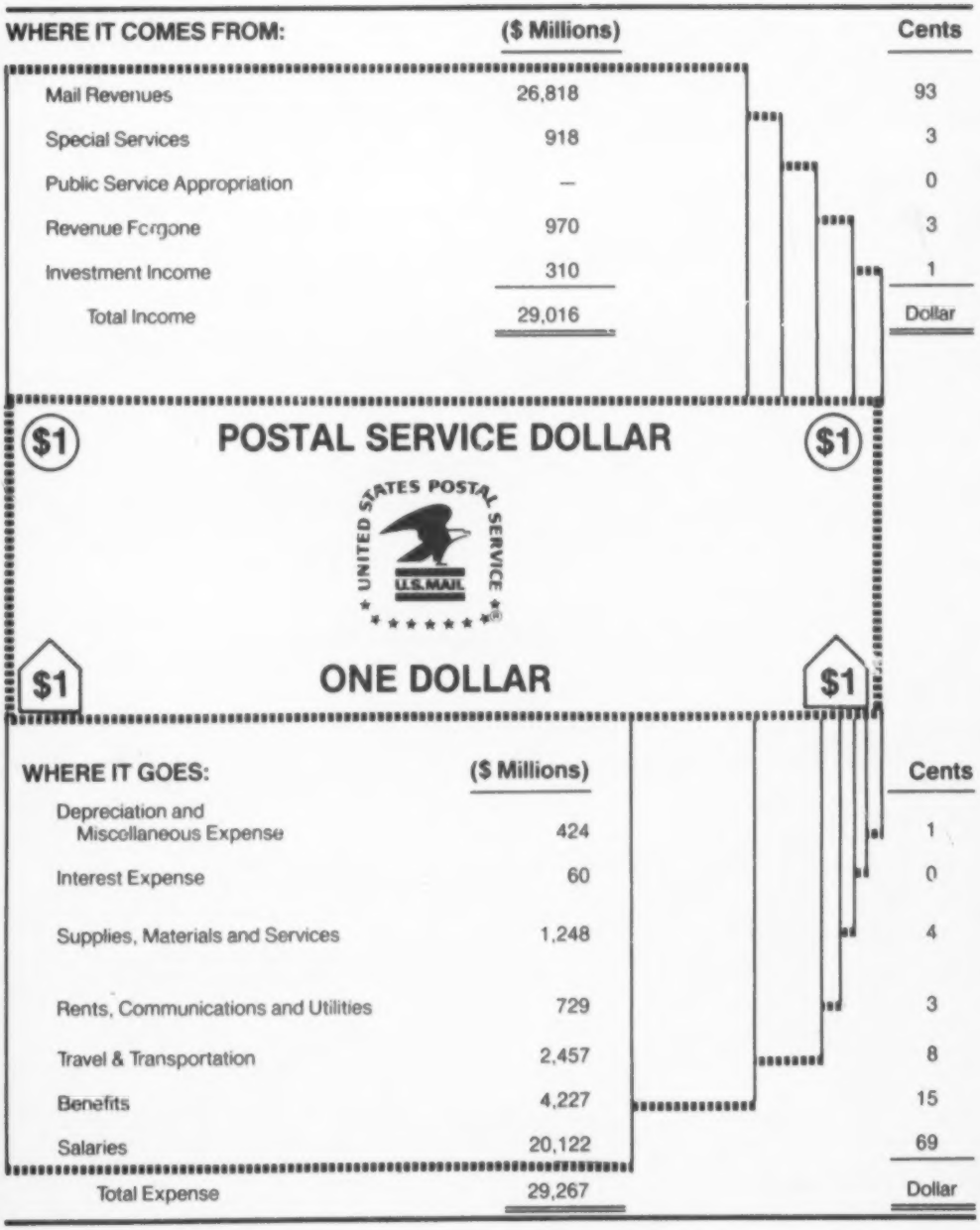
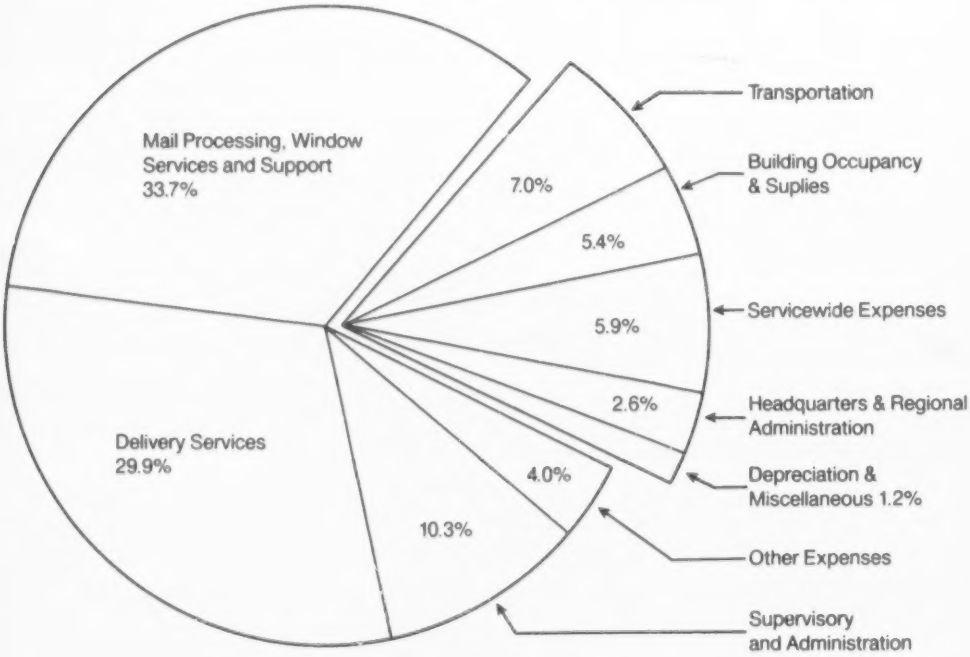


Figure 2
**Application of Funds**
**FY 1985**




| $ in Millions | Activities | Percent |
|---|---|---|
| 9,872 | Mail Processing | 33.7 |
| 8,759 | Delivery Services | 29.9 |
| 3,006 | Supervisory and Administration | 10.3 |
| 1,172 | Other Expenses | 4.0 |
| 22,809 | Total Field Operations | 77.9 |
| 2,042 | Transportation | 7.0 |
| 1,571 | Building Occupancy and Supplies | 5.4 |
| 1,738 | Servicewide Expenses | 5.9 |
| 747 | Headquarters & Regional Administration | 2.6 |
| 360 | Depreciation & Miscellaneous | 1.2 |
| 29,267 | Total Operating Expenses | 100.0 |
| 29,016 | Total Income | 99.1 |
| −251 | Applied to Equity | 0.9 |

collective bargaining agreements ($1,643) with proportional application to hourly-rate employees, was rolled into the basic pay of only those employees covered by a retirement option in these contracts. The total cost for all pay and cost-of-living increases for the three- or three and one-half-year terms of the current collective bargaining agreements with the major postal unions (July 1984-July 1987) is estimated to be $3.9 billion, COLA adjustments accounting for 35.6 percent of the total. A cost savings of $1.7 billion is anticipated as a result of the elongated step salary schedule, effective January 19, 1985, for all new employees.

Increases in health insurance premiums, effective January 5, 1985, cost the Postal Service an additional $62.0 million during the year, resulting in an annual cost for participation in the Federal Employees Health Benefits Program administered by the Office of Personnel Management of $933.5 million. Also on January 5, 1985, medicare contributions were increased to one-twentieth of one percent and the impact of full-year coverage was increased from a total cost of $230.3 million in Fiscal Year 1984 to $234.8 million in the current year. Contributions to the Civil Service Retirement and Disability Fund during the year amounted to $1.1 billion. This increase was a result of the large number of newly hired employees in this fiscal year. These contributions to a temporary retirement plan set up by the Congress until a permanent plan could be developed totaled $107 million. Public Law 98-21, which mandated Social Security coverage for all postal employees hired after December 31, 1983, has caused a dramatic increase in Social Security contributions by the Postal Service, from $17.5 million in Fiscal Year 1983 and $45.5 million in Fiscal Year 1984 to $168.2 million in Fiscal Year 1985.

***(2) Workers' Compensation Costs.*** During Fiscal Year 1985, the Postal Service incurred $202.2 million in workers' compensation costs. A total of 1,318 new claims was filed, bringing to 14,258 the total of active compensation claims. Please refer to Table 22 for further information on workers' compensation costs.

***(3) Unemployment Compensation Costs.*** During Fiscal Year 1985, the Postal Service's unemployment compensation costs were $15.0 million, a decrease of 12 percent from the Fiscal Year 1984 costs of $17.1 million. Unemployment compensation claims are monitored at the state level by Postal Service state coordinators for instances of unjustified claims, such as those involving gross misconduct, retirement, and voluntary resignation.

***(4) Claim Costs.*** The U.S. Postal Service paid out $25 million in indemnity claims for domestic, registered, insured, COD, and Express Mail during the year. Over one half of this total was for insured mail.

**c. Operating Cost Increases.** Table 23 summarizes the major operating cost increases incurred by the Postal Service in Fiscal year 1985:

**TABLE 22**

**Postal Service Workers' Compensation Costs and Annual Payments ($ in Millions)**

| Year | Estimated Annual Increase/Decrease in Active Claims | Current USPS Charges for Former POD Claims | Administrative Charge (DOL) | Total Annual Expense | Payments to DOL for USPS Active Claims |
|---|---|---|---|---|---|
| 1972 | 86.2 | — | — | 86.2 | 7.8 |
| 1973 | 78.6 | — | — | 78.6 | 20.7 |
| 1974 | 93.7 | — | — | 93.7 | 35.9 |
| 1975 | 237.9 | — | 3.0 | 240.9 | 55.9 |
| 1976 | 349.5 | — | 4.1 | 353.6 | 86.3 |
| 1977 | 624.4 | — | 4.7 | 629.1 | 116.5 |
| 1978 | 505.2 | — | 6.0 | 511.2 | 141.7 |
| 1979 | 746.1 | — | 9.0 | 755.1 | 156.2 |
| 1980 | 470.0 | — | 8.4 | 478.4 | 170.2 |
| 1981 | 465.1 | — | 8.7 | 474.4 | 176.9 |
| 1982 | 240.2 | 38.2 | 7.6 | 286.0 | 180.7 |
| 1983 | (71.3) | 40.0 | 7.4 | (23.9) | 179.0 |
| 1984 | 235.6 | 39.1 | 10.4 | 285.1 | 183.3 |
| 1985 | 325.9 | 40.0 | 10.5 | 376.4 | 202.2 |

**TABLE 23**

**Major Operating Cost Increases**

| | ($ in Millions) | | | |
|---|---|---|---|---|
| | FY 1984 Actual | FY 1985 Actual | Increase Amount | Increase % |
| Pay and Cost-of-Living Increases per labor contract | $ 412.4* | $ 771.0 | $358.6 | 86.9 |
| Health insurance premiums | 871.5 | 933.5 | 62.0 | 7.1 |
| Medicare coverage | 230.3 | 234.8 | 4.5 | 1.9 |
| Civil Service Retirement | 912.6 | 1,114.9 | 202.3 | 22.2 |
| Social Security coverage for all new employees after 12/31/83 | 45.5 | 168.2 | 122.7 | 269.7 |
| Penalty Overtime | — | 99.4 | 99.4 | — |
| Transportation of Mail | 1,690.7 | 2,041.5 | 350.8 | 20.7 |
| Fire at Headquarters Building, October 1984 | — | 14.0 | 14.0 | — |

*No new pay increases were granted in Fiscal Year 1984. This figure represents COLA only.

**d. Borrowing and Interest Expense.** For the first time in nine years, the Postal Service deemed it prudent to borrow during Fiscal year 1985. At its September 1985 meeting, the Board of Governors authorized postal management to borrow up to $1 billion to finance capital improvements utilizing obligations with maturities not to exceed 25 years. On September 30, 1985, the Service borrowed $970 million from the Federal Financing Bank within the Department of the Treasury. Currently, the Postal Service has $1.94 billion in outstanding debt, less than 20 percent of its statutorily authorized debt limit. During the year, the Postal Service made scheduled repayments of $367 million on outstanding notes, including a final balloon payment of $320 million on one note, plus a $10 million payment to the real estate and buildings improvements sinking fund as required by the bond trust indenture. Table 24 reflects borrowing and repayment information. Table 25 presents interest expense information for Fiscal Year 1984 through Fiscal Year 1987. The $22.4 million decline in interest expense during Fiscal Year 1985 was again attributable to the continuing decline of outstanding debt and increases in interest capitalized.

**TABLE 24**

**Borrowing and Repayment Schedule**
**($ in Millions)**

| | Balance 9/30/85 | Interest Rate | Due in FY 1986 | Due in FY 1987 |
|---|---|---|---|---|
| Bonds | 250 | 6.875% | * | * |
| Note #6 | 480 | 8.075% | 32.0 | 32.0 |
| Note #8 | 240 | 7.80% | 15.0 | 15.0 |
| Note #10 | 970 | 10.475% | 38.8 | 38.8 |
| Note #11 | ** | 10.50% | | 52.6 |
| Totals | 1,940 | | 85.8 | 138.8 |

*Bond sinking requirements are anticipated to be satisfied through real estate and buildings improvements.
**Anticipated borrowing of $1.3 billion on 9/30/86.

**TABLE 25**

**Interest Expense**
**($ in Thousands)**

| | FY 1984 | FY 1985 | FY 1986 | FY 1987 |
|---|---|---|---|---|
| Bonds | 17,187 | 17,188 | 17,188 | 17,188 |
| Notes | 91,305 | 77,366 | 156,517 | 284,495 |
| Motor Vehicles & Personal Property | 4,074 | 10,057 | 10,011 | 10,011 |
| Mortgages | 3,015 | 3,129 | 3,015 | 3,015 |
| Subtotal | 115,581 | 107,740 | 186,731 | 314,709 |
| Capitalized Interest | (33,305) | (47,900) | (93,255) | (129,540) |
| Total | 82,276 | 59,840 | 93,476 | 185,169 |

TABLE 26

Analysis of Change In Equity
($ in Millions)

| Fiscal Year | Net Income Loss (−) | Other | Funding of Annual Leave | Year-end Equity |
|---|---|---|---|---|
| Balance 6/30/71 | — | — | — | — |
| 1972 | (175) | 6 | 31 | 1,686 |
| 1973 | (13) | — | 31 | 1,566 |
| 1974 | (438) | (12) | 31 | 1,147 |
| 1975 | (989) | 1 | 31 | (190) |
| 1976 | (1,176) | — | 31 | (955) |
| TQ | 15 | 503 | 8 | (429) |
| 1977 | (688) | 498 | 31 | (588) |
| 1978 | (379) | (9) | 31 | (945) |
| 1979 | 470 | — | 31 | (444) |
| 1980 | (306) | — | 31 | (719) |
| 1981 | (588) | — | — | (1,307) |
| 1982 | 802 | — | — | (505) |
| 1983 | 616 | 1 | — | 112 |
| 1984 | 117 | 6 | 76 | 311 |
| 1985 | (251) | (2) | — | 58 |

**5. Banking.**

The Postal Service maintains 8,080 primary accounts and 11 concentration accounts in approximately 7,000 commercial banks for the purpose of gathering its revenues. All accounts are insured by the Federal Deposit Insurance Corporation, and where that is insufficient, Treasury obligations are pledged by banks with the Department of Treasury to collateralize uninsured balances. Revenues flowing through the system averaged $139 million each banking day or $36 billion per annum. No losses were sustained by the Postal Service from bank failures. A change to be implemented during the Fiscal Years 1986 through 1988 period will be to compensate banks with the payment of fees rather than with compensating balances. The average balances maintained with 29 minority banks were $4.9 million.

## B. Analysis of Balance Sheet.

At the end of Fiscal Year 1985, the Postal Service had an equity balance of $58.4 million, a decline of $252.3 million since the end of last year and a reversal of the favorable trend which began in Fiscal Year 1982. The net loss experienced during Fiscal Year 1985 was the cause of this decline. Please refer to table 26 for the equity position of the Postal Service since 1971. Despite this erosion of equity, the Postal Service was able to continue its capital investment program to improve working conditions, productivity, and service to the public. Capital investment commitments of $1,088 million were made during Fiscal Year 1985, the majority relating to the facility program. Please refer to Table 27 for statistics on the current financial condition of the Postal Service.

TABLE 27

Fiscal Year 1985
U.S. Postal Service
Highlights of Financial Condition
($ in Thousands)

| | |
|---|---|
| Current Assets | 3,234,741 |
| Property | 6,233,687 |
| Deferred Retirement and Other | 17,591,789 |
| Total Assets | 27,060,217 |
| Current Liabilities | 4,311,893 |
| Long-Term Debt | 1,983,263 |
| Retirement Benefits Payable | 17,134,576 |
| Other Liabilities | 3,572,121 |
| Total Liabilities | 27,001,853 |
| Equity | 58,364 |
| Total Liabilities & Equity | 27,060,217 |
| Total Borrowing Authority | 10,000,000 |
| Debt Outstanding | 1,940,000 |
| Undrawn Borrowing Authority | 8,060,000 |

## C. Internal Audit.

### 1. General.

The Postal Inspection Service performs the internal audit program of the Postal Service. The independent certification of the Postal Service's financial statements is at present performed by Arthur Young and Company. Both facets of the audit program are required by title 39, United States Code, section 2008.

### 2. Financial Audit.

Postal Inspectors audited approximately 300 postal facilities during Fiscal Year 1985 to determine whether revenues were properly collected, reported, and deposited, expenses were reasonable and proper; and statements of account fairly represented actual financial results. The conclusion drawn from these audits was that internal controls were satisfactory. Similar continuing financial audits, supporting the certification process and stressing the adequacy of internal controls, were also conducted of the four Postal Data Centers. Financial audit attention also included revenue and cost analysis observations, payroll audits, and imprest fund verification at supply centers, procurement service offices, Postal Data Centers and district offices. Additionally, Postal Inspectors conducted on-site verification of personal property, vehicle, and real property inventories.

### 3. Operations Audits.

Operations auditing by the Postal Service is designed to assist management in the operation of an efficient, economical, and reliable Postal Service by providing independent systematic appraisals of postal operations. Operations audits use a three-tiered approach, focusing on systems and procedures, functional areas, and installations. The extent resources are directed toward each tier is based on the needs, concerns, and priorities of postal management. During Fiscal Year 1985, 18 operations audits were completed, focusing on such subjects as the Procurement and Supply Department, collection service and mail flow improvement, the Supervisory Relief Program, and the control of overtime. Recommendations for increased efficiency on each subject were offered for management's attention.

Reviews of operating conditions at selected Area Distribution Centers were also conducted in Fiscal Year 1985. Audits were conducted at 38 such facilities, 17 airport mail facilities, 97 associate offices, 286 stations and branches, and 6 other major facilities.

### 4. Developmental Audits.

A developmental audit is an audit of a major new or redesigned system. The size, complexity, and potential benefits of the major systems being developed may require continuing audit attention. The independence and objectivity provided by the Inspection Service is an important and constructive factor in the eventual success of these systems. Eleven new or redesigned major postal systems received audit attention during the year to ensure that audit trails and system security were adequate and that an effective quality assurance program was in place. Among the projects receiving attention were the Air Contract Support System, the long life vehicle project, Postal Retail Information System Management (PRISM), the Postal Source Data System replacement system, and the Computer Forwarding System.

### 5. Miscellaneous.

Postal Inspectors contributed continuing audit assistance to postal procurement personnel during all phases of postal contracting and performed capital investment audits of new facilities to determine whether they were constructed as planned and to measure the cost effectiveness of the newly occupied building. In response to customer, Congressional, or management requests, the Inspection Service also conducted special investigations.

## D. Capital Investments.

### 1. General.

Actual capital investment commitments for Fiscal Year 1985 were $1,123.9 million, principally for facilities and mail processing equipment. Planned commitments totaled $1,549.7 million. Actual cash outlays for Fiscal Year 1985 were $969 million, $53 million less than planned. The capital investment commitment for Fiscal Year 1986 is estimated at $3.4 billion, with the Fiscal Year 1986 cash outlay plan for capital items set at $1.3 billion. Commitments planned for 1986 consist of $927 million for the facility program, $378 million for the procurement of mail processing equipment, $1,643 million for the purchase of mail handling and administrative vehicles, $180 million for customer service equipment, and $278 million for postal support equipment.

For the five-year period encompassing Fiscal Years 1986-1990, the Postal Service has tentatively planned capital investments of more than $9.2 billion. Of this amount, approximately $4.8 billion is earmarked for construction of new postal buildings. About $1.1 billion is planned for the purchase of mail processing equipment, with another $1.8 billion earmarked for vehicle purchases. $1.5 billion is being set aside for customer services and postal support equipment.

**2. Completed Facility Projects.**

The following major building projects, totaling $71.2 million, were completed during Fiscal Year 1985:

| | Square Feet | Cost |
|---|---|---|
| • Phoenix, AZ GMF/VMF | 533,000 | $45.0 million |
| • Springfield, MA GMF/VMF | 180,000 | $20.1 million |
| • Salina, KS GMF | 59,000 | $ 4.1 million |
| • Tampa, FL VMF | 21,000 | $ 2.0 million |

**3. Pending Facility Projects.**

**a. Over $20 million.**

The following large building projects estimated to cost more than $20 million each are now under way and will carry over into or through Fiscal Year 1986:

| Facility | Type | Size in Sq. Ft. | Cost | Completion Date |
|---|---|---|---|---|
| • Austin, TX | GMF* | 300,000 | $ 33.7 million | Summer 1988 |
| • Bakersfield, CA | GMF/VMF** | 195,000 | $ 22.4 million | Fall 1985 |
| • Beaumont, TX | GMF/VMF | 188,000 | $ 20.9 million | Fall 1987 |
| • Chicago, O'Hare, IL | AMF | 357,000 | $ 52.9 million | Spring 1987 |
| • Fort Worth, TX | GMF/VMF | 473,000 | $ 43.5 million | Winter 1985/86 |
| • Jackson, MS | GMF/VMF | 234,000 | $ 24.0 million | Winter 1987/88 |
| • Knoxville, TN | GMF/VMF | 207,000 | $ 24.1 million | Spring 1986 |
| • Las Vegas, NV | GMF/VMF | 238,000 | $ 26.0 million | Winter 1986/87 |
| • Los Angeles, CA | GMF/VMF | 1,378,000 | $151.6 million | Spring 1989 |
| • Mid-Island, NY | MPF*** | 276,000 | $ 29.9 million | Winter 1986/87 |
| • Nashville, TN | GMF | 253,000 | $ 29.0 million | Winter 1986/87 |
| • New York, NY, Manhattan | VMF | 402,900 | $ 64.6 million | Winter 1988/89 |
| • North Bay, CA | GMF | 182,000 | $ 21.0 million | Winter 1985 |
| • San Bernadino, CA | GMF/VMF | 297,000 | $ 33.2 million | Summer 1988 |
| • San Jose, CA | GMF/VMF | 379,000 | $ 49.9 million | Spring 1987 |
| • Southern MD | GMF | 249,000 | $ 30.3 million | Summer 1986 |
| • Stamford, CT | GMF/VMF | 179,000 | $ 25.9 million | Winter 1987/88 |
| • Stockton, CA | GMF/VMF | 192,000 | $ 23.1 million | Fall 1986 |
| • Suburban MD | GMF/VMF | 186,000 | $ 23.8 million | Fall 1985 |
| • Tampa, FL | GMF Expansion | 109,000 | $ 21.8 million | Summer 1986 |
| • Technical Training Center, Norman, OK | | 771,000 | $ 66.4 million | Summer 1988 |
| • Washington, DC | GMF | 653,000 | $101.0 million | Summer 1986 |
| • W. Palm Beach, FL | GMF/VMF | 302,000 | $ 32.3 million | Summer 1986 |

*GMF – General Mail Facility
**VMF – Vehicle Maintenance Facility
***MPF – Mail Processing Facility

**b. Between $5 Million and $20 Million.**

Projects estimated to cost between $5 million and $20 million are under way at Aurora, IL; the Engineering Support Center, Northern Virginia; Reading, PA; Lakeland, FL; the William F. Bolger Management Academy – Supplemental Enhancements, Potomac, MD; Fort Smith, AR; the New York Postal Data Center, Phase II; Provo, UT; Red Bank, NJ; Redding, CA; Springfield, MO; Summit, NJ; Tampa, FL; Van Nuys, CA, Encino Branch; and Bulk Mail Center modifications are continuing at Dallas, TX; Los Angeles, CA; Springfield, MA; and Washington, DC.

**c. Smaller Projects.**

A total of 208 postal-owned facilities, costing $215.8 million, were completed by the five postal regions during Fiscal Year 1985. At the close of the year, 446 postal-owned facilities were being constructed under regional supervision. These projects will cost $619.0 million.

**4. Planned Facility Projects.**

The Postal Service is now engaged in the necessary planning work for the following facility projects which are expected to be presented to the Board of Governors for consideration during Fiscal Year 1986:

**a. Over $20 Million.**

- Atlanta, GA (N. Georgia); construction of a 250,000 square foot facility.
- Denver, CO; construction of a 1,300,000 square foot facility.
- New York, NY (Morgan Expansion); construction of a 542,000 square foot facility.
- Queens, NY; construction of a 470,000 square foot facility.
- Westchester, NY; construction of a 402,000 square foot facility.
- Minneapolis, MN; construction of a new 200,000 square foot Postal Data Center.
- Dallas, TX (N. Dallas); construction of a 250,000 square foot facility.
- St. Louis, MO; construction of a new 200,000 square foot Postal Data Center.
- Grand Central Station – renovation of an existing facility.

**b. Between $5 Million and $20 Million.**

- Kansas City, KS
- Harrisburg, PA
- Southeastern, PA
- Watertown, NY

**5. Long Range Facility Projects.**

The Postal Service is presently conducting preliminary studies concerning the need for facilities in the following areas:

- Bangor, ME
- Charleston, SC
- Lancaster, CA
- Lima, OH
- Medford, OR
- Monroe, LA
- Owensboro, KY
- Boston, MA (AMF)
- Poughkeepsie, NY
- Rock Island, NY
- Sacramento, CA
- Topeka, KS
- Naperville, IL
- Champaign, IL
- Alhambra, CA
- Brooklyn, NY
- Cheyenne, WY
- Eastern Region HQ
- Elmira, NY
- Houston, TX
- Middlesex-Essex, MA
- Midland, TX
- Montgomery, AL
- Gainesville, FL
- New York BMC, NJ
- Oklahoma City, OK
- New York, NY GMF
- Orlando, FL
- Pasco, WA
- Pittsburgh, PA BMC

**6. Vehicle Acquisitions and Equipment Purchases.**

Please refer to Table 28 for a description of the vehicle purchases planned for next fiscal year, and to Tables 29 and 30 for completed and pending equipment purchases.

**TABLE 28**

**Planned Vehicle Purchases – Fiscal Year 1986**

| Type of Vehicle | Number of Vehicles |
|---|---|
| Long Life Delivery | 99,150 |
| Parcel Delivery Vehicles | 3,925 |
| Semi-Trailers | 970 |
| Tractors | 497 |

**TABLE 29**

**Equipment Purchases**

| Type | Number Delivered | Number On Order |
|---|---|---|
| Optical Character Readers | | 403 |
| Bar Code Sorters | | 452 |
| Expanded ZIP Retrofit Kits | 63 | 187 |
| Vending Equipment | | |
| Stamp Booklet Vendors | 3,000 | |
| Currency Changers | | 1,700 |
| Small Stamp Vendors | 500 | |
| Retail Vending Phase I | | |
| Stamp Vending Units | | 11,220 |
| Window automation Phase I | | |
| Integrated Retail Terminals | 3,500 | 1,500 |

**TABLE 30**

**Computer Systems**

| | |
|---|---|
| Human Resources Information Systems | $11.8 million |
| Postal Source Data System Replacement | $80.6 million |
| Air Contracting Support System | $53.2 million |
| Computerized On-Site Data Entry System | $19.5 million |
| Internal Voice Communications Network | $34.3 million |
| Upgrade of Central Processing Units at the Postal Data Centers | $35.0 million |

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